

THE EFFECT OF THE PRESIDENT'S TAX PLAN ON STATE AND LOCAL TAXPAYERS

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

MAY 29 AND 30, 1985

Printed for the use of the Joint Economic Committee



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1985

49-321 O

J841-34.

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Congress)

HOUSE OF REPRESENTATIVES

DAVID R. OBEY, Wisconsin, *Chairman*
LEE H. HAMILTON, Indiana
PARREN J. MITCHELL, Maryland
AUGUSTUS F. HAWKINS, California
JAMES H. SCHEUER, New York
FORTNEY H. (PETE) STARK, California
CHALMERS P. WYLIE, Ohio
DANIEL E. LUNGREN, California
OLYMPIA J. SNOWE, Maine
BOBBI FIEDLER, California

SENATE

JAMES ABDNOR, South Dakota,
Vice Chairman
WILLIAM V. ROTH, JR., Delaware
STEVEN D. SYMMS, Idaho
MACK MATTINGLY, Georgia
ALFONSE M. D'AMATO, New York
PETE WILSON, California
LLOYD BENTSEN, Texas
WILLIAM PROXMIRE, Wisconsin
EDWARD M. KENNEDY, Massachusetts
PAUL S. SARBANES, Maryland

SCOTT LILLY, *Executive Director*
ROBERT J. TOSTERUD, *Deputy Director*

CONTENTS

WITNESSES AND STATEMENTS

WEDNESDAY, MAY 29, 1985

	Page
Obey, Hon. David R., chairman of the Joint Economic Committee: Opening statement.....	1
Raimondo, Henry J., associate dean, Business School, Rutgers, the State University of New Jersey, New Brunswick, NJ.....	9
Oakland, William H., professor of economics, Tulane University, New Orleans, LA.....	27
Minarik, Joseph J., senior research associate, the Urban Institute, Washington, DC	61

THURSDAY, MAY 30, 1985

Obey, Hon. David R., chairman of the Joint Economic Committee: Opening statement.....	83
Ackerman, Freda Stern, executive vice president and director, municipal department, Moody's Investors Service, New York, NY	85

SUBMISSIONS FOR THE RECORD

WEDNESDAY, MAY 29, 1985

Minarik, Joseph J.: Prepared statement	65
Oakland, William H.: Study entitled "Consequences of the Repeal of State and Local Tax Deductibility Under the U.S. Personal Income Tax"	30
Obey, Hon. David R.: Copy of income tax form 1040 for the year 1913	3
Raimondo, Henry J.: Prepared statement.....	13

APPENDIX

Paper entitled "The Case for Eliminating Deductibility of State and Local Taxes," by Bruce Bartlett, senior fellow, the Heritage Foundation.....	99
Article entitled "The Treasury's Trojan Horse" by Jacob K. Javits, a former New York Republican Senator	117

THE EFFECT OF THE PRESIDENT'S TAX PLAN ON STATE AND LOCAL TAXPAYERS

WEDNESDAY, MAY 29, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2255, Rayburn House Office Building, Hon. David E. Obey (chairman of the committee) presiding.

Present: Representatives Obey and Stark.

Also present: Scott Lilly, executive director; and William R. Buechner, Dena Stoner, and Carl Van Horn, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. Good morning. Today, the Joint Economic Committee will begin 2 days of hearings on how the proposed elimination of the Federal tax deduction for taxes paid to State and local governments will affect the fairness of the current tax system, and how it will affect our Federal system of taxing and providing for the common good at the local, State, and national levels.

The President announced last night that he was including the proposed elimination of these deductions in the so-called tax simplification package which he is sending to the Congress. He claims that his plan is simple, equitable, fair, and revenue neutral.

I share the desire of most Americans for a Tax Code which is less complex and which treats all the taxpayers more fairly. But, based on those standards, in my judgment, the President's plan is very disappointing.

It is hard to overlook the fact that many reforms are not in this package, reforms that have been on almost every tax reform list for decades. Even reforms which were included in the original Treasury Department reform package have been eliminated in the President's proposal. They include the first-year expensing of oil drilling costs, the taxation of real capital gains as ordinary income, and more significant reform of accelerated cost recovery.

But most disturbing, at least to me, are the implications of the elimination of the deduction for State and local taxes. When the Federal income tax was first adopted, it was simple, it was straightforward, and most people felt it was fair. They didn't like the fact that they had it, but they thought it was probably pretty fair. It

was three pages in length. The staff has distributed a copy of the original tax form, and taxpayers had to fill in only a few spaces.

On the third page, which was then the last page of the Federal tax form, one of those deductions which existed since the beginning of the Federal income tax was for State and local taxes. In all of the years we have had the Federal income tax it has been felt that Americans should not pay taxes on money which they had already paid in taxes to another jurisdiction. It is hard for me to see how reversing that simple principle will add either simplicity or fairness to our tax system.

[The tax form referred to follows:]

TO BE FILLED IN BY COLLECTOR.

Form 1040.

TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

List No.

INCOME TAX.

File No.

District of

THE PENALTY
FOR FAILURE TO HAVE THIS RETURN IN
THE HANDS OF THE COLLECTOR OF
INTERNAL REVENUE ON OR BEFORE
MARCH 1 IS \$20 TO \$1,000.
(SEE INSTRUCTIONS ON PAGE 4.)

Assessment List

Date received

Page Line

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.

(As provided by Act of Congress, approved October 3, 1913.)

RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 191.....

(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) of State of

(Full name of individual.)

(Street and No.)

in the City, Town, or Post Office of State of

(Fill in pages 2 and 3 before making entries below.)

1. GROSS INCOME (see page 2, line 12) \$

2. GENERAL DEDUCTIONS (see page 3, line 7) \$

3. NET INCOME \$

Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.

4. Dividends and net earnings received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11) \$

5. Amount of income on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A) \$

6. Specific exemption of \$3,000 or \$4,000, as the case may be. (See Instructions 3 and 19) \$

Total deductions and exemptions. (Items 4, 5, and 6) \$

7. TAXABLE INCOME on which the normal tax of 1 per cent is to be calculated. (See Instruction 3). \$

8. When the net income shown above on line 3 exceeds \$20,000, the additional tax thereon must be calculated as per schedule below:

	INCOME.				TAX.			
1 per cent on amount over \$20,000 and not exceeding \$50,000	\$				\$			
2 " " 50,000 " " 75,000								
3 " " 75,000 " " 100,000								
4 " " 100,000 " " 250,000								
5 " " 250,000 " " 500,000								
6 " " 500,000								
Total additional or super tax					\$			
Total normal tax (1 per cent of amount entered on line 7)					\$			
Total tax liability					\$			

GROSS INCOME.

This statement must show in the proper spaces the entire amount of gains, profits, and income received by or accrued to the individual from all sources during the year specified on page 1.

DESCRIPTION OF INCOME.	A. Amount of income on which tax has been deducted and withheld at the source.	B. Amount of income on which tax has not been deducted and withheld at the source.
1. Total amount derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid.	\$	\$
2. Total amount derived from professions, vocations, businesses, trade, commerce, or sales or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, including bonds, stocks, etc.		
3. Total amount derived from rents and from interest on notes, mortgages, and securities (other than reported on lines 5 and 6).		
4. Total amount of gains and profits derived from partnership business, whether the same be divided and distributed or not.		
5. Total amount of fixed and determinable annual gains, profits, and income derived from interest upon bonds and mortgages or deeds of trust, or other similar obligations of corporations, joint-stock companies or associations, and insurance companies, whether payable annually or at shorter or longer periods.		
6. Total amount of income derived from coupons, checks, or bills of exchange for or in payment of interest upon bonds issued in foreign countries and upon foreign mortgages or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged in business in foreign countries.		
7. Total amount of income received from fiduciaries.		
8. Total amount of income derived from any source whatever, not specified or entered elsewhere on this page.		
9. TOTAL	\$	\$
NOTE.—Enter total of Column A on line 5 of first page.		
10. AGGREGATE TOTALS OF COLUMNS A AND B		
11. Total amount of income derived from dividends on the stock or from the net earnings of corporations, joint-stock companies, associations, or insurance companies subject to like tax. (To be entered on line 4 of first page.)		\$
12. TOTAL "Gross Income" (to be entered on line 1 of first page).		\$

GENERAL DEDUCTIONS.

1. The amount of necessary expenses actually paid in carrying on business, but not including business expenses of partnerships, and not including personal, living, or family expenses.....	\$			
2. All interest paid within the year on personal indebtedness of taxpayer.....				
3. All national, State, county, school, and municipal taxes paid within the year (not including those assessed against local benefits).....				
4. Losses actually sustained during the year incurred in trade or arising from fire, storms, or shipwreck, and not compensated for by insurance or otherwise.....				
5. Debts due which have been actually ascertained to be worthless and which have been charged off within the year.....				
6. Amount representing a reasonable allowance for the exhaustion, wear, and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per cent of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof, for which an allowance is or has been made.....				
7. Total "GENERAL DEDUCTIONS" (to be entered on line 2 of first page).....				

AFFIDAVIT TO BE EXECUTED BY INDIVIDUAL MAKING HIS OWN RETURN.

I solemnly swear (or affirm) that the foregoing return, to the best of my knowledge and belief, contains a true and complete statement of all gains, profits, and income received by or accrued to me during the year for which the return is made, and that I am entitled to all the deductions and exemptions entered or claimed therein, under the Federal Income-tax Law of October 3, 1913.

Sworn to and subscribed before me this.....

day of 191

(Signature of individual.)



(Official capacity.)

AFFIDAVIT TO BE EXECUTED BY DULY AUTHORIZED AGENT MAKING RETURN FOR INDIVIDUAL.

I solemnly swear (or affirm) that I have sufficient knowledge of the affairs and property of to enable me to make a full and complete return thereof, and that the foregoing return, to the best of my knowledge and belief, contains a true and complete statement of all gains, profits, and income received by or accrued to said individual during the year for which the return is made, and that the said individual is entitled, under the Federal Income-tax Law of October 3, 1913, to all the deductions and exemptions entered or claimed therein.

Sworn to and subscribed before me this.....

day of 191

(Signature of Agent.)



(Official capacity.)

ADDRESS
IN FULL:

INSTRUCTIONS.

1. This return shall be made by every citizen of the United States, whether residing at home or abroad, and by every person residing in the United States, though not a citizen thereof, having a net income of \$3,000 or over for the taxable year, and also by every nonresident alien deriving income from property owned and business, trade, or profession carried on in the United States by him.

2. When an individual by reason of minority, sickness or other disability, or absence from the United States, is unable to make his own return, it may be made for him by his duly authorized representative.

3. The normal tax of 1 per cent shall be assessed on the total net income less the specific exemption of \$3,000 or \$4,000 as the case may be. (For the year 1913, the specific exemption allowable is \$2,000 or \$3,333.33, as the case may be.) If, however, the normal tax has been deducted and withheld on any part of the income at the source, or if any part of the income is received as dividends upon the stock or from the net earnings of any corporation, etc., which is taxable upon its net income, such income shall be deducted from the individual's total net income for the purpose of calculating the amount of income on which the individual is liable for the normal tax of 1 per cent by virtue of this return. (See page 1, line 7.)

4. The additional or *super* tax shall be calculated as stated on page 1.

5. This return shall be filed with the Collector of Internal Revenue for the district in which the individual resides if he has no other place of business, otherwise in the district in which he has his principal place of business; or in case the person resides in a foreign country, then with the collector for the district in which his principal business is carried on in the United States.

6. This return must be filed on or before the first day of March succeeding the close of the calendar year for which return is made.

7. The penalty for failure to file the return within the time specified by law is \$20 to \$1,000. In case of refusal or neglect to render the return within the required time (except in cases of sickness or absence), 50 per cent shall be added to amount of tax assessed. In case of false or fraudulent return, 100 per cent shall be added to such tax, and any person required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this section to be made shall be guilty of a misdemeanor, and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

8. When the return is not filed within the required time by reason of sickness or absence of the individual, an extension of time, not exceeding 30 days from March 1, within which to file such return, may be granted by the collector, provided an application therefor is made by the individual within the period for which such extension is desired.

9. This return properly filled out must be made under oath or affirmation. Affidavits may be made before any officer authorized by law to administer oaths. If before a justice of the peace or magistrate, not using a seal, a certificate of the clerk of the court as to the authority of such officer to administer oaths should be attached to the return.

10. Expenses for medical attendance, store accounts, family supplies, wages of domestic servants, cost of board, room, or house rent for family or personal use, are not expenses that can be deducted from gross income. In case an individual owns his own residence he can not deduct the estimated value of his rent,

neither shall he be required to include such estimated rental of his house as income.

11. The farmer, in computing the net income from his farm for his annual return, shall include all moneys received for produce and animals sold, and for the wool and hides of animals slaughtered, provided such wool and hides are sold, and he shall deduct therefrom the sums actually paid as purchase money for the animals sold or slaughtered during the year.

When animals were raised by the owner and are sold or slaughtered he shall not deduct their value as expenses or loss. He may deduct the amount of money actually paid as expense for producing any farm products, live stock, etc. In deducting expenses for repairs on farm property the amount deducted must not exceed the amount actually expended for such repairs during the year for which the return is made. (See page 3, item 6.) The cost of replacing tools or machinery is a deductible expense to the extent that the cost of the new articles does not exceed the value of the old.

12. In calculating losses, only such losses as shall have been actually sustained and the amount of which has been definitely ascertained during the year covered by the return can be deducted.

13. Persons receiving fees or emoluments for professional or other services, as in the case of physicians or lawyers, should include all actual receipts for services rendered in the year for which return is made, together with all unpaid accounts, charges for services, or contingent income due for that year, if good and collectible.

14. Debts which were contracted during the year for which return is made, but found in said year to be worthless, may be deducted from gross income for said year, but such debts can not be regarded as worthless until after legal proceedings to recover the same have proved fruitless or it clearly appears that the debtor is insolvent. If debts contracted prior to the year for which return is made were included as income in return for year in which said debts were contracted, and such debts shall subsequently prove to be worthless, they may be deducted under the head of losses in the return for the year in which such debts were charged off as worthless.

15. Amounts due or accrued to the individual members of a partnership from the net earnings of the partnership, whether apportioned and distributed or not, shall be included in the annual return of the individual.

16. United States pensions shall be included as income.

17. Estimated advance in value of real estate is not required to be reported as income, unless the increased value is taken up on the books of the individual as an increase of assets.

18. Costs of suits and other legal proceedings arising from ordinary business may be treated as an expense of such business, and may be deducted from gross income for the year in which such costs were paid.

19. An unmarried individual or a married individual not living with wife or husband shall be allowed an exemption of \$3,000. When husband and wife live together they shall be allowed jointly a total exemption of only \$4,000 on their aggregate income. They may make a joint return, both subscribing thereto, or if they have separate incomes, they may make separate returns; but in no case shall they jointly claim more than \$4,000 exemption on their aggregate income.

20. In computing net income there shall be excluded the compensation of all officers and employees of a State or any political subdivision thereof, except when such compensation is paid by the United States Government.

Representative OBEY. The newspaper columnist, David Broder, wrote a column this morning on the issue of tax reform and in that article he listed four criteria by which we should judge tax reform. One of them was whether compromises which are made on the road to tax reform are compromises that relate to tactics or compromises that compromise away basic principles. And as he said, compromise becomes dangerous when those who are not party to the deals cannot see any principle that is employed to guide the choice. Then cynicism undermines the product.

Then with respect to the issue under discussion today, he asked the following question: "Are we going to repeal the deductibility of State and local property taxes? Then let's debate the principle of federalism that underlies that deductibility and see if it is a principle we are prepared to abandon or to compromise for the billions of revenue the Federal Government will gain. In each case, let's put the principle front and center and measure the Tax Code changes by that principle." I think that's good advice.

Thirty-three million Americans who itemize their returns—virtually every family that makes a mortgage payment on their house—will lose the right to deduct the money that they have already paid in property taxes, sales taxes, and State and local income taxes from their gross income.

We are not talking simply about rich Americans. IRS data show that one-half of all the households who make between \$20,000 and \$25,000 a year deduct their State and local taxes. Two-thirds of all households who make between \$25,000 and \$30,000 use this deduction.

It is interesting that the President's plan retains provisions of the current law which allows large corporations to continue to get not just a deduction but a full tax credit on the taxes they pay to Japan or Saudi Arabia, but treats the taxes that a family would pay to their own State as taxable income and subject to Federal taxation.

But there are three other aspects of this proposed change which I hope we can examine in some detail this morning. The first is that the tax burdens are not shared equally among States. Americans with the same level of income pay significantly different amounts in taxes, depending upon where they live. While some may argue that this can be accounted for by different levels of services provided, that is only one—and in many instances, not even the most significant—factor in determining the variation in tax rates from one locality to the next.

Alaska, for instance, has a per-pupil expenditure in elementary and secondary education of well over \$6,000. That is more than twice the national average, but Alaska has an income tax system in the form of rebates rather than revenue collections. Further, the increased service levels provided in some States as opposed to others are frequently not provided to those who are paying the higher taxes.

This disparity in the total tax bill of taxpayers with similar incomes, but living in different political jurisdictions, worsens dramatically when the money paid in taxes to one level of government becomes subject to a second round of taxation as proposed in the President's plan. Nowhere I would suggest, is that more vividly il-

lustrated than what would happen right here in the District of Columbia metropolitan area if you want to compare the marginal tax rates in a jurisdiction like the District of Columbia versus Virginia just across the river.

Second, States compete against one another for industry and economic development and, since they do, the total effect of tax imposed on businesses and individuals in one jurisdiction as opposed to another has a significant impact on patterns of development and economic change among the States. There is little question that the elimination of this deduction will further penalize those States which are already strapped with high tax burdens and exacerbate the competitive disadvantage under which they are already suffering in attracting and retaining industry. There is little question that this has significant implications for future patterns of development and economic growth.

Finally, if money paid to State and local governments in taxes is subjected to taxation again at the Federal level, there will obviously be increased pressure at the State and local levels to back away from responsibilities in areas such as education, health care, environmental protection, and law enforcement as a way of offsetting the increased tax burden. This will ironically come at a time when the administration is calling for reduced Federal effort in these areas because they are "State and local responsibilities."

There is one additional issue which I think needs to be addressed. Some supporters of the President's plan have charged that State and local governments are just another special interest when it comes to their treatment in the Federal Tax Code. It seems to me that whether you are talking about towns or cities or States or the Federal Government, you are talking about the Federal system of government and that system is charged with the public interest at every single level. Those governments are not responsible to one select group of stockholders or one segment of private enterprise; they are responsible for the well-being of all the people as part of that Federal system.

As Maryland's Budget Director, Lewis Stedler, said just last week, "There is a big difference between providing transportation to public schools and providing a business trip to the Super Bowl." I think frankly to suggest that the objection to the elimination of the deduction for State and local taxation is just another special interest is a lot of baloney. We are talking about levels of government which have a very significant responsibility, a very important role to play in meeting our joint responsibilities to all of the taxpayers in this society.

I hope we will be able to probe more deeply into each of these issues this morning.

We have a distinguished panel of economists who are among the tops in their profession in the field of public finance. They include Henry Raimondo, who is associate dean of the Business School of Rutgers, and specializes in public finance; William Oakland of Tulane University, who is widely published and who, among other things, served as a consultant to the Treasury Department in the preparation of Treasury I; and finally, Joe Minarik, who is a senior research associate of the Urban Institute and formerly a member

of the staff at the Congressional Budget Office, a very familiar operation around here.

Gentlemen, I welcome you here this morning and I would ask if you would take whatever time you feel you need. Mr. Raimondo, I notice your prepared statement is a little longer than the rest. If you would like to summarize your prepared statement, touching on the things you feel that are important, we will be happy to submit the full prepared statement for the record, and I would ask each of the other two witnesses to do the same.

STATEMENT OF HENRY J. RAIMONDO, ASSOCIATE DEAN, BUSINESS SCHOOL, RUTGERS, THE STATE UNIVERSITY OF NEW JERSEY, NEW BRUNSWICK, NJ

Mr. RAIMONDO. Thank you, Congressman Obey. I would be pleased to summarize my prepared statement.

Before we go into the specific reasons why I support the deduction of State and local taxes from the Federal personal income Tax Code, I would like to introduce a principle which I think is at work in many legislative initiatives that this administration has put forth and rears its head again when we're talking about tax reform. That is a principle with regards to public policy change that I have categorized as a "get-you-later" policy approach.

By this, I mean the administration is very often willing to recommend significant changes which leave most of the population unchanged in the short run so it is easy for the representatives of the administration to say that this plan is fiscally neutral in the short run. Everyone will enjoy a property or income tax relief of one kind or another, but in the long run, the changes that have been introduced by this proposal will have significant adverse effects on taxpayers throughout the country whether they come from high tax States or low tax States.

In looking at this proposal, I would ask you to keep in mind the phrase "get-you-later" because this proposal will certainly do that to the taxpayers of the United States.

I support the continued deduction of State and local taxes from the personal income tax because it serves four principles. I will just mention these principles in passing and I would be more than willing to answer any questions which you have about them at the end of my statement or at the end of the statements of the three of us.

The first principle is fiscal autonomy in the Federal system. The way we have organized the public sector is to decentralize or share decisionmaking among Federal, State, and local governments. In fact, we have asked State and local governments to play the role of innovators in policy at the subnational level—let them decide on different tax strategies, different levels of taxes; let them decide on different service delivery systems, different service levels, or a different mixture of services State by State. In fact, in every Fourth of July speech most of us would be proud to list that as an element of the Federal system that we find very attractive—this notion of local decisionmaking.

The removal of the deduction of State and local taxes from the Federal personal income tax represents a significant change in the decisionmaking process in fiscal federalism. It moves us away from

constructing a tax policy that views the United States as one, into constructing a tax policy which fragments the United States into 50 unequal parts. I do not think that makes for good Federal policy.

It puts the squeeze on State and local governments, as you say, at a time when they have already been squeezed by the Federal budget changes and by the recession that the economy has just gone through. It magnifies the fiscal capacity disparities which exist across the country so that people in poor States, if they want the services that they need, will have a difficult time getting those services unless they are willing to bear a higher tax burden than their neighbors from a richer State. This is consistent with the policy of breaking the country up in pieces rather than viewing it as one whole.

There is an adage that says that bad news comes in threes. In terms of fiscal autonomy for State and local governments, we can say that they have just heard the third of three. They have lived through the property tax revolt which has limited property tax collections. They have seen an acceleration in the decline of intergovernmental grants which started in 1978 but certainly has accelerated during this administration. And now the third of three, they are told that they must lose the deduction for State and local taxes from the personal income tax. I think that this damages fiscal federalism and moves us away from fiscal autonomy in a Federal system.

The second principle that I believe this deduction serves is fairness in the taxation of personal income. Our principle in taxing personal income has traditionally been one of ability to pay. We could argue whether the current tax law satisfies that principle, but by and large we have paid homage to this notion of ability to pay which simply says the more you earn, the more you should pay in percentage terms.

We could consider State and local taxes as a forced reduction in an individual's personal income. I say it is forced because, while people can vote on whether they want the State and local tax levels they are presented with, if they vote against it and the majority vote for it they certainly cannot veto the proposal. They must pay. So it is viewed as forced reduction.

If State and local taxes and benefits were tied in a one-to-one correspondence so that for every dollar a taxpayer put into the State or local treasury he or she received back a dollar's worth of services, you might be able to make an argument for eliminating the deduction. But redistribution at the State and local level is inevitable, which means that some people put a dollar in and it's only by coincidence that they get a dollar's worth of service back. More likely, they get more or less.

Because of this redistribution it seems unfair to eliminate the deduction of State and local taxes from the Federal Tax Code. This exaggerates the ability to pay of taxpayers by including a component in their income which has forcibly been taken away by State and local governments.

There is another element to fairness in the taxation of personal income. The deductions serve as an incentive for State and local

governments to structure relatively progressive or—perhaps I'm being overly optimistic—less regressive State and local taxes.

By eliminating the deduction, we are eliminating the opportunity for State and local governments to design taxes that are progressive in nature and forcing them more and more to turn to regressive taxation.

So because of the overstatement of income and the ability to pay concept and because of the loss of the incentive for progressivity at State and local levels, I feel that the elimination of this deduction does not serve fairness in the taxation of personal income.

The third principle I believe the maintenance of the deduction serves, is that it restrains interstate tax competition. As I said, in a fiscal Federal system, we encourage States to be innovators, try different tax systems, experiment, tax at different levels, be different. But because our Federal Tax Code is designed right now to look at us as a nation, we dampen some of the effects of these differences through the deduction. So be different, but too much competition could hurt us as a nation. So we minimize some of this competition.

The deduction's elimination would just magnify the importance of fiscal disparities and tax differentials between States. I call this the "fun house mirror" effect. All of us at one time or another have stood before a fun house mirror. Our small parts become large and our large parts become small and we laugh at the distorted image of ourselves. However, when States try to negotiate with businesses for location or expansion, State and local taxes, which are a very small part of business costs, suddenly are magnified, just the way the fun house mirror magnifies small parts of us. And businesses hold up these tax differentials to the States as a bargaining chip to decide whether they should locate or expand there.

This also holds in the case of homeowners when they negotiate for home prices across communities. I feel that this type of bargaining with State and local governments encourages inefficiency in business location, encourages inefficient social migration, and really does not serve the purpose of efficient operating businesses.

In fact, let's go one step further and say that, by magnifying tax differentials, we are pitting the service provision to people against tax relief and economic development. I think the game is stacked against service provision.

The last principle I think that the maintenance of the deduction serves is the assistance in public service provision to people. Is the deduction a subsidy for public service provision? I believe it is to some extent, by intention.

All State and local services are subsidized in one form or another by lowering the tax price that people must face. This is particularly true in the area of education which relies so heavily on the property tax. The elimination of this deduction will raise the tax price of services, particularly education, to State and local residents and, again as you have said, Congressman Obey, in your opening statement, this comes at a time when the States are being asked to do more with less. Certainly an unfair situation to place these service providers in.

It leaves the States with one of two alternatives—to cut services over the long haul or to raise taxes. If they raise taxes, they are

faced with interstate competition being magnified and with relying on unfair or unequal fiscal capacities with which to tax themselves.

Also, the incentive would be for them to rely on regressive taxes rather than progressive.

Now this is not going to happen in the short run and that's why I stressed to you this "get-you-later" approach, because this is something that we can expect to see happen to services and tax policy over the long haul among State and local governments.

Those are my four points. There is one last statement I would like to make. Some proponents of this elimination of the deduction would like to categorize its elimination as an American revolution. I think the statement is somewhat overblown, but there is some validity to it.

In the one and only American revolution, the States were created, but they were left in disarray, facing fiscal hardship. If this deduction of State and local taxes is eliminated from the Federal Tax Code, no new States will be created, but they will certainly be left in disarray, facing fiscal hardship. Thank you.

[The prepared statement of Mr. Raimondo follows:]

PREPARED STATEMENT OF HENRY J. RAIMONDO

INTRODUCTION

Whether the cancelled check to the Internal Revenue Service (IRS) is fresh in your mind or whether the check from the IRS is not yet in your hands, changing the personal income tax sounds appealing. There is no resisting an honest attempt to reform the personal income tax so that the tax claims a fair share from every taxpayer; encourages personal savings, business investment, and economic growth; is understood by all taxpayers; and can be easily administered. In their haste to accomplish these ends, it is no surprise that the designers of the Administration's tax reform plan make a mistake. The mistake is the modification of the deductibility of state and local taxes from the U.S. personal income tax.

The deduction of state and local taxes (e.g. personal income, general sales, and property) amounts to at least a \$30 billion annual tax saving for all taxpayers. This deduction is especially important to the taxpayers in California, Illinois, Michigan, New Jersey, New York, and Pennsylvania. 1/

This portion of the tax plan follows a standard technique which the Administration has used in the past when it introduced proposals which have significant adverse effects. That technique is a "Get-Ya-

Later" or a delayed reaction approach to public policy changes. The immediate impact of the change may be neutral (or even beneficial), but the near and long-term future impact is adverse.

The legislative history of the Administration provides many examples, but the indexation of the federal personal income tax and the now forgotten "New Federalism" proposals are worth mentioning. Some proponents of modification of the deductibility of state and local taxes are counting on this approach being successful this time. While supporters of the Administration's tax reform proposal hope that opposition to this change will be swept away by talk of revenue neutrality, reduced marginal tax rates, and incentives to economic growth, my advice is: beware of the long-term implications of this particular proposal.

While every member of Congress is (or will be) weary of hearing why a particular provision of the present personal income tax code should remain unchanged, there are four major reasons why I believe that the deductibility of state and local taxes are in line with the goals of tax reformers and should, therefore, remain in effect. The deductibility of state and local taxes serves the principles of fiscal autonomy in the federal system, fairness in the taxation of personal income, restrained interstate tax competition, and assistance in the provision of state and local public services, particularly public elementary and secondary education.

FISCAL AUTONOMY IN THE FEDERAL SYSTEM

The Theory. The federal system is composed of a federal government, fifty state governments, and approximately 70,000 local

governments of one kind or another (i.e., county, municipality, township, school district, and special district). Each level of government has decision-making authority which should reflect the interests of the residents.

This shared decision-making means that people should be able to vote on public questions in federal, state, and local elections; public policy should differ across jurisdictions and levels of government, as much as the outlook of the people differs; and people at each level of government should have a voice in tax and expenditure decisions. In general, a federal system places the states and localities in the role of innovators of public policy. On fiscal issues, people in the states and localities can choose the level and type of taxes which they pay and the nature and the direction of public spending. 2/

The modification of the deduction of state and local taxes from the federal personal income tax is contrary to this notion of federalism. There has been little discussion about the fact that this modification represents a significant change in the nature of fiscal federalism. This unilateral action on the part of the federal government will squeeze the fiscal resources of the state and local governments. This fiscal squeeze will magnify the variations in state-local fiscal capacity and reduce the notion of local choice and local innovation in public policy to a Fourth of July slogan.

Fiscal Disparities. For state and local governments, bad news comes in threes. First, they were jolted by a tax revolt movement in thirty-five states (e.g., Proposition 13 in California, Proposition 2

1/2 in Massachusetts, and limit laws in Wisconsin and New Jersey to mention a few). Second, they experienced a decline in real per capita federal intergovernmental grants which began in 1978. ^{3/} Third, they face the possibility of a modification in the deductibility of state and local taxes from the federal income tax.

All these changes bring us back to the fiscal disparities which exist among subnational governments. For example, the Advisory Commission on Intergovernmental Relations (ACIR) notes that the fiscal capacity (relative ability to raise revenues) of the highest state, Alaska, is eighty percent higher than the fiscal capacity of the lowest state, Mississippi. Even if I omit the top 5 and lowest 5 states, the fiscal capacity of the sixth state, Illinois, is forty percent greater than the fiscal capacity of the forty-fifth state, Utah. Moreover, within geographic regions fiscal capacity varies. This disparity reduces local choice to local fretting about finances. ^{4/}

An inadequate state-local fiscal capacity undermines the success of fiscal federalism. The modification of this deductibility provision contributes to the weakening of the federal system. Local choice without adequate resources is no choice. Under these circumstances, "voting with your feet" translates into wealthy individuals and profitable businesses "making tracks" to another jurisdiction where they can avoid state-local public problems, such as the costs of providing education, fighting crime, and servicing the needs of the poor. This consequence is certainly the case with metropolitan areas and their surrounding suburbs. Those people and

businesses who can avoid relatively higher taxes, do so by moving to a relatively lower tax jurisdiction; thereby evading the ends of a state-local public policy that is not to their liking. 5/

Consequences. Simply put, the "get-ya-later" or delayed reaction of this modification in current tax policy is that fiscal federalism is damaged. At the very time when the federal government is expecting state-local governments to take on more of the public service responsibilities which it is shedding, the modification of this deductibility provision will decrease the state-local governments' willingness and ability to respond with increased spending in the areas of health care, education, and social services for the poor. 6/

In terms of the way in which this country organizes its public sector, the modification of the deductibility of state-local taxes will reduce the ability of state-local governments to experiment within the public policy arena and diminish the significance of state-local choice in the development of public policy. In terms of the way in which state-local governments respond to the service needs of their people, the series of bad news capped by the possible modification of the deductibility provision highlights the fiscal disparities among state-local governments and makes state-local service pick-up of federal programs even more unlikely.

FAIRNESS IN THE TAXATION OF PERSONAL INCOME

Equity. In a federal system where more than one level of government can and does use the same tax base, tax equity requires the deductibility of state and local taxes. This issue of tax equity has two dimensions which I wish to mention. One dimension refers to the

marginal tax rates which a taxpayer faces. In a federal system, deductibility is one way of keeping the level of marginal tax rates (i.e., sum of federal, state, and local rates) from creating disincentives and economic inefficiencies. 7/

With each level of government acting without regard for the other levels, marginal tax rates, particularly at the upper end of the income distribution could become prohibitive. For example, in some relatively high state personal income tax states, the combined legislated federal and state marginal tax rates for certain income classes under certain circumstances could be the same or actually increase after the modification of the deductibility provision compared to the current law with the deductibility provision. Recall that these marginal rates would be applied to a larger base so that the tax liability would increase.

A second dimension of taxpayer equity deals with the ability-to-pay principle. The ability-to-pay principle of taxation requires the deductibility of state and local taxes from the federal personal income tax. Under this principle, a taxpaying unit should pay more in taxes, the more net income the unit receives. State and local taxes are a forced reduction in personal income, very often not tied to public service benefits. As such, taxpayers should not pay federal personal income taxes on state and local tax liabilities. 8/ A modification of the deduction would make taxpayers do just that. Taxpayers would be paying tax on income over which they have no control. This modification exaggerates the taxpayers' ability-to-pay.

This last point raises another issue. State and local taxes,

particularly income taxes, but also general sales and property taxes are generally not tied to public service benefits. Redistribution of income is an inevitable outcome of the state-local fiscal system. The deductibility provision re-affirms that redistribution of income is primarily a national interest, as it should be. 9/ Its repeal pushes the redistribution function away from the federal government towards the state and local governments, where it should not be. State and local governments may well reject this responsibility so that the end result will be that the nation steps away from its redistribution obligations.

Consequences. The "get-ya-later" or delayed reaction implications for fairness in the taxation of income are twofold. State and local governments will be encouraged to distort their tax structures to avoid the full impact of the modification of the deductibility provision. If the Congress eliminates the deductibility provision, then state and local governments might look to business income although I doubt that.

Rather state and local governments will turn to user charges where possible (the possibilities are limited) or to taxes which can be exported (e.g., severance taxes, hotel room taxes, etc.). All these contortions in the state and local tax structure serve the causes of tax regressivity and interstate tax competition, not tax equity. 10/ I will develop this last topic later in my statement.

The second implication is that the modification of the deduction will discourage states from implementing progressive state personal income taxes. With the deduction, state governments could tax income

at a progressive rate and the deduction would dampen some of the effects of the progressivity of the state income tax. 11/ This outcome seems more in line with the national interest than the alternative of encouraging regressive taxes at the state and local levels of government.

RESTRAINED INTERSTATE TAX COMPETITION

Free to Choose. In a federal system, state and local governments are encouraged to choose the type and the magnitude of the taxes which their residents support. To restrain interstate tax competition which could result from tax variations across states, federal deductibility of state and local taxes is necessary. It reduces the tax differences among states.

For example, state and local determination of tax policy has resulted in six states not using a state personal income tax to contribute to their general revenue while 10 states use it to collect at least 15 percent of their general revenue; four states not using a business income tax while eight states use it to collect at least four percent of their general revenue; and four states not using a general sales tax while 16 use it to collect at least 15 percent of their general revenue. 12/

Not only would the selection of a tax structure be jeopardized, but also the level of taxes -- relatively high or relatively low -- whichever state and local residents support. This reduction in tax-designing discretion means that the federal government has chipped away at the notion of fiscal federalism. Public service levels will also be affected at the same time when state and local governments are

being asked to pick-up the programs which the federal government has cast-off.

Consequences. The "yet-ya-later" or delayed reaction of this aspect of the modification of the deductibility provision is that over time businesses can exploit the tax differences among states when they are planning a location or expansion move. People can also pit state against state when they are planning a home-buying decision. This exploitation manifests itself in the form of states being careful not to be "too different" from their neighbors (a loss of individual state choice) or businesses demanding taxes breaks. In this environment, tax policy experimentation would be chimerical.

Tax differentials among states are subject to the "funhouse mirror effect." We have all stood before a funhouse mirror and laughed at the distorted image of ourselves -- the large parts become small and the small parts become large. When a business negotiates with a state about the possible location of a new facility or the expansion of an existing facility, state tax differentials grow from a relatively small part to a relatively large part of the decision. The same effect holds for a potential home-buyer. When a home-buyer considers the price of a home in one jurisdiction versus another, the local property tax differential will now become magnified. Not only could the modification of the deduction of property taxes depress the home-building industry and discourage home buying, but the modification of the deduction will also intensify the tax competition between locality and locality, particularly city against suburb. I doubt that this outcome is worthwhile.

The tax diversity which we applaud as vital to the federal system becomes a liability to the states which dare to be different. For example, the interstate competition would intensify between Massachusetts and New Hampshire, Wisconsin and Ohio-Indiana, Minnesota and South Dakota, and Georgia and Alabama-South Carolina. What end does this intensified interstate tax competition serve? Certainly, not efficient business and residential location decisions. The price of the factors of production -- land, labor, interest rates, and energy costs to name a few -- will determine efficient business location and expansion decisions, not tax differentials.

Rather the intensified interstate tax competition which would result from the modification of the deductibility provision would discourage constructive innovation in tax policy and fuel inefficient migration from state-to-state and locality-to-locality. In addition, the competitive tax situation would pit public service provision against promises of tax relief and economic development. The outcome of the competition is stacked.

ASSISTANCE IN THE PROVISION OF STATE AND LOCAL PUBLIC SERVICES

Role in Service Provision. In each of the three previous points, I have alluded to the impact which the modification of the deductibility of state and local taxes from the federal personal income tax would have on state and local public service provision. The deductibility provision lowers the tax-price of state and local public services. In short, the U.S. Treasury is paying some of the tab for police and fire protection, sanitation, road maintenance, sewerage, and education. Much as it would if the federal government

were providing a grant for these services.

This relationship holds especially for the deductibility of property taxes and the provision of public elementary and secondary education. Public elementary and secondary education relies very heavily on property taxes. The federal deductibility makes the regressive local property tax more acceptable to the taxpayer. More importantly, the deduction of local property taxes stimulates spending on education. This increased spending is consistent with the emphasis which the federal and many state governments have recently placed on education. It also comes at a time when the hi-tech sector of the U.S. economy has been growing.

Consequences. The "yet-ya-later" or delayed reaction to the modification of the deductibility provision in the state and local public service area is that the tax-price of state and local public services will increase. This tax-price increase means that state and local governments must either cut services or raise taxes, *ceteris paribus*. Let's examine each alternative.

In the case of general public services, state and local governments have already been trimming their budgets back to the basic services throughout the 1980s. Additional service cuts are unlikely and could prove harmful to each state's residents and businesses. In the case of public elementary and secondary education, public officials have not shown any inclination to cut spending. Yet the modification of the deductibility provision may mean just that.

This service reduction alternative is ironic for at least two reasons. First, state governments have been trying to respond to the

cutbacks in federal spending. Fiscal disparities have made their response uneven. Now the federal government would be raising the cost to state and local government pick-up of a federal program. Second, if there is one area where the state government has succeeded in increasing financial aid to local governments, it is education. Cutting educational spending would be contrary to the recommendations of educators and business people.

It is also difficult to urge that state governments reduce financial assistance to local governments, yet the modification of the deduction might mean just that. State governments have not been able to give much assistance to their local governments. The intergovernmental relations between state and local governments could be characterized as "the piker and the pauper." (My apologies to Mark Twain.)

By this I mean that state governments have increased financial assistance to local governments in a small way relative to local government fiscal needs. Meanwhile local governments in the role of the pauper have inadequate financial resources to meet the demands on their public services. Again the loss the deduction raises public service tax-prices at a time when state and local governments do not have adequate fiscal resources to meet current public service needs.

If state and local governments decide to raise taxes, then they find themselves confronted with the problems of fiscal disparities and interstate competition which I have already discussed. This alternative is not likely. Incidentally, if a state or local tax increase came to pass, it would undo some of the principles behind the

federal tax reduction policy. The damage would be significant because state and local governments would turn to regressive taxes to replace the lost revenue from the progressive federal tax system.

SUMMARY

I support the deductibility of state and local taxes from the federal personal income tax. My reason is that the deduction serves the principles of fiscal autonomy in the federal system, fairness in the taxation of personal income, restrained interstate tax competition, and assistance in the provision of state and local public services. If the deduction is modified or eliminated, it would place state and local governments in much the same circumstances as Jonah in the whale's belly. That is, their financial circumstances would be worsened, but they would survive. But oh how nice it would be not to be in that predicament in the first place!

FOOTNOTES

- 1/ U.S. Treasury Department, Individual Income Tax Returns, Statistics of Income. (Government Printing Office, Washington, D.C.: annual).
- 2/ Charles M. Tiebout, "A Pure Theory of Local Expenditures," Journal of Political Economy, Vol. 64 (October, 1956): 416-424.
- 3/ Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism. (Government Printing Office, Washington, D.C.: annual).
- 4/ Advisory Commission on Intergovernmental Relations, Tax Capacity of the Fifty States. (Government Printing Office, Washington, D.C.: 1981).
- 5/ Henry J. Raimondo, "Central City Isolation and Intergovernmental Grants, 1961-1977," Growth and Change, Vol. 13, No. 1 (January, 1982): 26-36.
- 6/ "States Are Found More Responsive On Social Issues," New York Times, (May 19, 1985): 1 and 32.
- 7/ George F. Break, Financing Government in a Federal System. (The Brookings Institution: Washington, D.C.: 1980).
- 8/ Richard A. Musgrave and Peggy B. Musgrave, Public Finance in Theory and Practice. (McGraw-Hill: New York, 1984).
- 9/ Wallace Oates, Fiscal Federalism. (Harcourt, Brace & Jovanovich: New York, 1972).
- 10/ Charles M. McClure, "Interstate Exporting of State and Local Taxes: Estimates for 1962," National Tax Journal, Vol. 20 (March 1967): 19-36 and T.D. Hogan and R.B. Shelton, "Interstate Tax Exportation and States Fiscal Structure," National Tax Journal, Vol. 26 (December, 1973): 553-564.
- 11/ Henry J. Raimondo and H. Peter Gray, "Improving the Progressivity of State Personal Income Taxes At Federal Expense," (Rutgers University: mimeographed, 1985).
- 12/ Advisory Commission on Intergovernmental Relations, Significant Features.

Representative OBEY. Thank you very much. Mr. Oakland, would you like to follow?

**STATEMENT OF WILLIAM H. OAKLAND, PROFESSOR OF
ECONOMICS, TULANE UNIVERSITY, NEW ORLEANS, LA**

Mr. OAKLAND. Yes, sir. My name is William Oakland. I am a professor of economics at Tulane and my specialty is public finance, particularly as it relates to State and local governments. In this connection, I recently completed a study for the U.S. Treasury on the consequences of the repeal of State and local tax deductibility under the Federal personal income tax. I appreciate the opportunity this morning to be able to discuss my principal findings.

The consequences of tax deductibility are many, complex, and far reaching. It is unlikely that many of these effects were foreseen by framers of U.S. income tax law, nor have they all been considered by those who advocate reform. Let me begin with a brief summary of these consequences. The details supporting my arguments can be provided during the question period as well as in my Treasury paper which I submitted for the record.

First, and most important, the equity case for total repeal of tax deductibility is far from compelling. It is true that a comprehensive income tax would include, as income, benefits one receives from public services. The problem is how to measure the benefits of these services. I don't find it convincing that such benefits are accurately measured by tax payments as our reformers would have us believe. Taxes may vary among two individuals residing in different States not only because of differences in public services each receives but also because of differences in the costs of others' public services each absorbs.

For example, the costs of welfare and related services will be higher in States with more generous benefits or with a greater incidence of poverty. In neither case could it be said that the higher tax payment represents an increase in public services to the taxpayer. It is also true that areas with high concentrations of poor, such as central cities, must impose a heavier tax burden on their nonpoor for ordinary public services such as education, police, and sanitation. Once again, the higher taxes cannot be said to constitute income to the taxpayer. For this reason, it is difficult to believe that repeal of deductibility will improve the fairness of our income tax.

The second major finding has to do with the use of tax deductibility as a means of aiding State and local governments. It has been alleged by some reformers that tax deductibility is an inefficient way of accomplishing this objective, that it could be done more effectively through outright grants, say through revenue sharing or through block grants. However, quite the opposite is the case. Because tax deductibility operates in a fashion similar to open-ended matching grants, tax deductibility may offer a more powerful stimulus to State and local government spending than the alternatives of revenue sharing or block grants.

As a matter of fact, in my study I estimated that to provide the same degree of tax deductibility, the block grants would have to be increased by an amount greater than the tax forgone under

present deductibility. Thus, if the Federal Government is interested in maintaining current State-local spending, it will have to increase its budget deficit.

Third, State and local governments may respond to the repeal of personal tax deductions by redirecting their tax systems toward business establishments whose taxes remain deductible. Sometimes these types of changes would be cosmetic, not fundamentally changing the nature nor the incidence of taxes. For example, a State could replace its personal income tax by a value-added tax or a tax upon payroll. In both cases, the legal liability of the tax would be shifted to the business enterprises. This would enable the States to continue to export its tax to the Federal Government without changing the incidence of the tax.

Now such cosmetic opportunities may be somewhat limited. Many States and localities will respond by making a substantive shift to business taxation. Because the incidence—that is, the burden—our knowledge of the burden of these business taxes is very incomplete, the consequences for equity are very, very uncertain. Furthermore, the increased reliance on business taxation could lead to heightened tax competition among States. As Mr. Raimondo pointed out, that kind of competition for business does tend to keep service levels down and the more that we rely on business taxation, the greater the effects of this competition.

Now these reactions will be difficult to avoid. It would be very hard to tailor a tax bill which said, all right, States if you try to make these changes we are not going to allow it; you're not going to have the deductibility; because it seems to me inconceivable that business taxes would be disallowed as deductions. I can't see that we would ever get to the state where we would say that business payments would not be deductible.

Now while these constitute the major consequences of repeal, there are a few other effects worth mentioning. Repeal will not uniformly favor the poor taxpayer relative to the rich, as is sometimes alleged. In high expenditure States, the poor will experience a reduction in redistributive services as these governments respond to the reduced subsidy from the Federal Government. Moreover, such people will also experience increases in housing costs as the effective rate of the property tax is increased. On the other hand, affluent residents of low tax States, such as my own, Louisiana, will experience lower housing costs, and capital flees from the high tax States to the low tax States in order to equalize its rate of return. That surely is not a movement in the direction that I think is intended.

I also would note that for reasons somewhat too technical to go into detail here, it's not even clear that the incentive and productive improvements that are supposed to accompany the lowering of the Federal marginal tax rates because of the elimination of these deductions will in fact materialize if deductibility is repealed.

Basically, the argument has to do with the productivity effects having to do with the rate of tax and the higher the rate, the more proportionately the waste that these higher tax rates cost, and what we are going to do essentially by eliminating deductibility is increase in a nonuniform fashion, as this chart [indicating] demon-

strates, the rates of State taxation, and that may actually create more disincentives than we are gaining by reducing the Federal rate.

Well, to sum up and restate my original point that the consequences of repeal of tax deductibility are many and complex, the case for their removal is not as compelling as advocates of tax reform would have us believe. Perhaps partial repeal, by placing some kind of a floor on deductible tax payments, should be considered as an alternative. This would maintain most of the incentives that are currently in the present arrangement in terms of local and State governments' incentives to provide services, while still providing significant revenue increase for the Federal Government. Moreover, it would be consistent with the reality that all taxpayers enjoy some level of State and local services and therefore could be expected to pay some taxes on these benefits. Thank you.

[The Treasury Department study attached to Mr. Oakland's statement follows:]

CONSEQUENCES OF THE REPEAL
OF STATE AND LOCAL TAX DEDUCTIBILITY
UNDER THE U.S. PERSONAL INCOME TAX.

By

William H. Oakland

Tulane University

January, 1985

I. INTRODUCTION

This paper addresses the consequences of totally or partially eliminating the deduction, by households, of State and Local (S&L) taxes from taxable income under the U.S. Personal Income Tax. This question arises naturally from the shortfall of revenues which is currently being experienced at the federal level. The tax deduction provision is estimated to cost the U.S. Treasury \$28 billion in 1983 and is expected to grow further in the future.¹ The question has also arisen in connection with a larger overall effort to simplify the federal income tax which has come under the rubric of "flat-rate" taxation. By the elimination of the myriad of exemptions and deductions that now exist, marginal tax rates could be sharply reduced, thereby increasing incentives to work and save.

Before proceeding with the analysis, an important caveat is in order. The issue under consideration is extremely complex and is deserving of much more time and resources than were available to this study. These resource limitations meant that we could not pursue the empirical dimensions of our arguments. Rather we are restricted to painting a "qualitative" picture of the likely outcome of reform. Furthermore, we do not claim a great deal of originality for our arguments. Many of the salient points have already been addressed by others. Our objective was to review this work and to fill in gaps as was deemed necessary.

Our plan of attack is as follows. We begin with a discussion of the original justification for tax deductibility--that such tax payments do not constitute income--and of the arguments of its major critics, those who hold that deductibility is a form of tax expenditure. The discussion then

turns to the question of the relative effectiveness of the provision as a form of fiscal relief to S&L governments. The principal alternatives considered are revenue sharing or block grants. Whether such expenditure stimulus as occurs is socially justifiable is taken up next. Several factors which tend to make S&L expenditure sub-optimal are identified.

The analysis continues with a discussion of some somewhat neglected consequences of tax deductibility. These are its impact on interstate tax competition, on the revenue structures of S&L governments, and on the distribution of income.

The final section considers partial as opposed to total repeal of deductibility. Among the alternatives considered are the elimination of the deduction for sales taxes, putting a floor under deductions, or placing a ceiling on them. The paper concludes with a discussion of its principal findings.

II. TAX DEDUCTIBILITY: A REFINEMENT OF ABILITY-TO-PAY OR A TAX EXPENDITURE?

It has become commonplace to refer to S & L tax deductibility as a tax expenditure. This term is meant to imply that the deduction's cost to the Treasury is an implicit form of Federal expenditure. If the deduction were not permitted the Federal Government could use the proceeds to finance additional expenditures and/or decrease taxes. While this terminology has intuitive appeal, closer scrutiny reveals important conceptual problems. It clearly cannot be used to describe any activity the

government might not choose to tax. It would be inappropriate to conclude, for example, that because there is no federal excise tax on bread, there is a federal subsidy to bread consumption. In order to have substance, the concept of tax expenditure must be linked to a consensus of what activities should be taxed; that is, there must be broad agreement as to what constitutes an optimal tax base. Implicit in much of the literature on tax expenditure is the assumption that income is just such a tax base. Some hold that income is the best indicator of ability to pay taxes while others are attracted by the breadth of the income tax base for its efficiency advantages. Yet this support for an income base has its detractors. Some feel that consumption is a superior base while others point to the conceptual and practical difficulties in measuring income.

For the problem at hand, namely S & L tax deductions, it is not necessary to enter the debate as to whether income is the fairest or most efficient tax base. We will take this to be a working assumption. Instead, we will focus upon the question of whether S & L deductibility constitutes a form of tax expenditure.

The answer to this question rests with whether S & L tax payments constitute income. If so, their exclusion must be justified on other grounds; viz. the equity and efficiency consequences of the exclusion. If not, the concept of tax expenditures in this context is vacuous. If the S&L tax payments by individuals are matched dollar for dollar by S & L expenditure benefits, i.e. are benefit taxes, then they can be viewed properly as income. In effect, individuals would be purchasing S & L services on the same terms that they buy private goods and services.

To what extent does this quid pro quo between S & L taxpayers and governments obtain? Under the idealized conditions of the modified Tiebout model, local governments would use their zoning powers to stratify people into homogeneous housing and public service consuming communities. Differences in public expenditure benefits among communities would be fully reflected in differences in tax payments. Under the assumption of free mobility of taxpayers, each citizen could choose that combination of taxes and benefits which maximizes his/her utility. In effect, S&L taxes become perfect benefit taxes.

While the Tiebout model is suggestive of how decentralization can improve resource allocation, its stringent assumptions have little basis in reality. With the exception of certain bedroom suburban communities, localities are not perfectly or even partially stratified by income class. Even if they were, states are extremely heterogeneous, so that the Tiebout model would not apply to state expenditure.

In a heterogeneous community there will not necessarily be consensus about the level of taxation and public services. To illustrate this, suppose individuals differ only in terms of income; i.e., they have the same tastes. Suppose further that public expenditure decisions are made by referendum according to majority rule and that people are taxed in proportion to their income.² In this environment, the level of public services in equilibrium will be that preferred by the voter with the median income. Moreover, the tax price confronting an individual voter is proportional to his/her share of community income; hence, it rises monotonically with income. On the other hand, for a given tax price, those with higher incomes can be assumed to prefer a larger public sector. A

given voter's satisfaction with the equilibrium level of services will thus reflect these conflicting forces. It is easy to show that if the income elasticity of demand, E_I , exceeds the price elasticity of demand, E_P , those with below median income will desire a contraction of public services and those with above median incomes will desire an expansion.³ If $E_I < E_P$, the situation is reversed.

In either circumstance, the relationship between the taxpayer and S&L governments differs materially from that between the individual and the private market. In the latter case, people pay a "tax" equal to their marginal benefit. In the former case this correspondence disappears for all but the median taxpayer. If $E_P < E_I$, the marginal benefit of the well-to-do exceeds his/her tax for additional services.⁴ If $E_P > E_I$, it falls short. For those below the median income the situation is reversed.

For the issue at hand, however, we can limit our attention to the situation for the above-average income taxpayer. For it is this group which itemizes and hence enjoys the fruit of deductibility. If the marginal public service benefits of the well-to-do systematically exceed their tax prices, the case for deductibility is considerably weakened because such individuals would enjoy net fiscal benefits from the S&L sector.⁵ Thus, inclusion of S&L taxes in taxable income would not overstate true income.⁶

Unfortunately, one cannot make generalizations about the marginal benefits to the above average income taxpayer.⁷ S&L governments engage in a myriad of activities, many which are of different import to the

well-to-do taxpayer. There are clearly categories of expenditure where the benefit (excluding altruistic benefits) to the affluent taxpayer is zero--income redistribution activities. Moreover, many of the non-explicitly redistributive programs of S&L government have a significant redistributive component. For example, expenditures for public health, remedial education, police and fire protection, and mass transit are often predicated on the socio-economic composition of the population. Areas with a high incidence of poverty are often forced to make "defensive" outlays on such programs simply to put themselves on an equal footing with affluent suburbs or neighboring states.⁸ Such outlays can hardly be regarded as "beneficial" to the affluent citizen of such jurisdictions.

Even the most important local service, education, is marked by considerable redistributive elements. Households without children subsidize the education of those with children. Moreover, even though E_i may be high for education, E_p may be high for the affluent because of private school alternatives. Hence, marginal benefits may decline with income. Thus, we currently have the spectre of many central city school systems populated primarily by underprivileged minorities.

The preceding discussion paints to a much different picture of the quid-pro-quo between a citizen and his/her state and local governments than does the Tiebout model. The existence of redistributive public expenditure programs and tax prices which increase with income substantially loosens the correspondence between S&L tax payments and public service benefits. Thus, a resident of a high tax, high social service

state (e.g., the Northeast) may enjoy no more, or even less, public service benefits than a similar individual in a low tax, low social service state (e.g., in the South).⁹

To conclude this section, it seems questionable to apply the concept of tax expenditure to the deductibility of S&L taxes. The concept of income as a measure of ability to pay requires that public service benefits be included in the tax base. There is, however, no consensus about how to measure such benefits. Those who would repeal tax deductibility are implicitly measuring benefit flows by tax payments. But as we have argued above, the correspondence between tax payments and benefits is too imprecise to make such a connection. If the income tax were otherwise free of loopholes the elimination of deductibility could not be advocated on the grounds of equity. Otherwise, a case for repeal would have to be based upon some sort of second-best argument; e.g. those who benefit from deductibility also enjoy other unfair favorable treatment. While this is often alleged in a broad sense -- the well-to-do have all of the loopholes -- the problem could be best resolved by eliminating the loopholes or increasing the progressivity of the rate structure; the incidence of the benefits of deductibility, while correlated with income, is not sufficiently precise to serve as a basis for increasing taxes on the rich.

While S&L taxes may not be a good indicator of public service benefit flows, it remains true that, redistributive programs aside people do receive benefits from S&L expenditures. To exempt such benefits from income taxation will bias choices towards S&L services, away from private goods and services. To what extent is such a shift desirable? On the other hand, the elimination of the deductibility of personal taxes

would be bias S&L governments to choose taxes upon business, whose taxes would remain deductible. Such business taxes may well create greater inefficiencies and inequities than personal taxes. It is to these issues that we now turn.

III. TAX DEDUCTIBILITY AS A SUBSIDY TO S & L GOVERNMENTS

It is often alleged that tax deductibility constitutes a subsidy to S&L governments. An analogy is drawn to the exemption of the interest on S&L securities. Because of their tax free status, the interest cost of S&L securities is lower than otherwise, freeing budget resources for S&L governments. This analogy, however, is less than complete. In the case of tax deductibility, the subsidy is to citizen-voters and not to S&L governments themselves. Budget relief to S&L governments is afforded only insofar as voters are willing to support a larger level of S&L services; this will require the increase of nominal S&L tax rates.

The implementation of tax deductibility will have two effects on taxpayers. First, the income of itemizers will be increased and second, the "price" of S&L services to this group will diminish. We shall treat these in turn.

The income effects arising from tax deductibility are likely to be of minor importance. This is because the revenue losses caused by deductibility will have to be recouped.¹⁰ It is impossible to say which federal taxes would be increased to recover the revenue loss, but let us suppose that the loss is made up by an across-the-board increase in

marginal income tax rates. While many itemizers will still be better off, it is clear that non-itemizers will be worse off. With the higher after-tax incomes,

itemizers might be expected to support added public services.

Non-itemizers, however, would tend to favor a smaller public sector.

Consequently, the net effect on S&L services is uncertain. Whatever the net outcome, it is likely to be small. Thus, we can ignore the income effects of the deductibility provision.

Let us consider the "price" effects. After the adoption of deductibility, added S&L services will appear to be cheaper to itemizers because the federal government will share in the tax costs of the new services. In effect, the federal government becomes a partner in the finance of expanded S&L services. Thus, part of the S&L electorate, the itemizers, will be more responsive to an expansion of services. It is in this sense that deductibility constitutes a "subsidy" to S&L governments.

The quantitative significance of this subsidy is difficult to establish because of the paucity of consistent estimates of the price elasticity for total S&L expenditures. Indeed, the literature contains only a handful of estimates for total local expenditures and none whatever for state expenditure.¹¹ And the local estimates span the range of the credible, ranging from a high of -1.2 by Inman (1971) to a low of -.1 by Gramlich and Rubinfeld (1982). Making matters worse is the use of different "tax prices" by different investigators. Only Inman (1971) explicitly considers the effect of tax deductibility on tax price; the others use some variant of one's house value as a fraction of the total community tax base. Faced with this lack of data, Noto and Zimmerman (1983) use a rough average of

price elasticities (-.5) for individual services -- which are much more consistent and available. Such a procedure overlooks the substitutability effects among public services, which would be absent for total expenditures. Thus, the (-.5) figure is biased upwards.

Existing estimates are also biased upwards because they include the effects of tax competition among jurisdictions -- which would be absent from a general decrease in tax prices as results from tax deductibility. Furthermore, they include income effects. The appropriate compensated elasticity would be approximately .1 less in absolute value than the uncompensated elasticity.¹²

In my judgement, the above reasons call for a considerable reduction in the published price elasticity figures -- say by one-half. Thus, the price elasticity which is relevant for tax deductibility ranges from a high of (-.6) (Innman) to (-.05) (Gramlich and Rubinfeld). Noto and Zimmerman estimate that the average price reduction to the Itemizers due to deductibility is 41%. Applying this to the range of elasticities above gives us an expenditure stimulus of between 2% and 24%. If we choose the mid-range of this interval as our best guess, we get an expansion of 13% in S&L expenditures because of deductibility. Even though the basis for the calculation is extremely crude, this figure suggests that tax deductibility may have a significant impact on the size of the S&L sector.

II. Tax Deductibility as an Inefficient Subsidy

Noto and Zimmerman (1983), using a price elasticity of -.5, argue that

the increase in S&L expenditure caused by deductibility amounts to only 60¢ per dollar of loss to the federal treasury. Because the federal government has the option of giving the dollar to S&L government directly, say through Revenue Sharing, Noto and Zimmerman conclude that deductibility is an inefficient mechanism for stimulating S&L spending.

There are two flaws in this argument. If the price elasticity is indeed -5 , then S&L expenditure rises by 50¢ per dollar of foregone federal revenue. For the change in S&L expenditure is equal to $-E(\Delta p/p)e_p$, where e_p is price elasticity, $\Delta p/p$ is the price reduction to itemizers, and E is the original (prededuction) level of S&L expenditure. The cost to the federal government, on the other hand, is $E(\Delta p/p)$. The ratio of these two is clearly $-e_p$, and is independent of the size of the price reduction.

Using my own figures for e_p , we obtain an expenditure stimulus of 5¢ to 60¢ per dollar of federal expenditure. This appears to strengthen Noto and Zimmerman's inefficiency argument. Further inspection of the logic, however, raises some serious doubts about their hypothesis.

First, it should be noted that if we consider Revenue Sharing to be the alternative to tax deductibility, we no longer can decrease income tax rates in the face of the repeal of deductibility. To the average taxpayer, this means that his/her taxes will have risen by the average tax-saving from deductibility. Thus, repeal of deductibility will carry with it an income effect. This income effect will cause S&L taxpayers to reduce their demand for public services.

Second, the allocation of Revenue Sharing money to S&L governments

does not guarantee that all such funds will remain with them. These governments have the option of reducing their taxes, in effect sharing some of the Revenue Sharing with the taxpayer.

The net effect of substituting tax deductibility by Revenue Sharing will depend, in part, upon the relative size of these two effects. And there are good theoretical reasons to suppose that these effects will exactly cancel out. Suppose, instead of giving the Revenue Sharing monies to S&L officials the federal government gave the money directly to the taxpayer. These monies would, in the aggregate, exactly match the tax increase caused by the repeal of deductibility.¹³ Thus, taxpayers as a whole would be no worse off nor better off with respect to the income that they must allocate between private goods and S&L services. It follows that the only effect of the change that remains operative is an increase in the tax price that voters confront for incremental S&L services. Using the argument of the preceding section, the, S&L expenditures could be expected to fall by 2% to 24%. Contrary to Hoto and Zimmerman, then, our reasoning suggests that tax deductibility may be more stimulative than Revenue Sharing.

Central to our argument is the hypothesis that General Revenue Sharing would have the same stimulative effect whether the monies are given to S&L governments or to S&L citizens. If voters are perceptive, it is reasonable to assume that this is the case because the total resources available to the community would be the same in either event. But there is not support for this proposition in the empirical literature on the

determinants of S&L expenditures. Studies repeatedly find that general purpose grants, such as General Revenue Sharing, stimulate spending by a much greater amount than would a similar increase in community income. According to Gramlich and Galper, for instance, an unrestricted grant of \$1 would increase spending by 43¢ while a \$1 increase in income would raise spending by only 9¢. This disparity has come to be known as the "flypaper effect"--money sticks where it hits.

Various attempts have been made to reconcile the flypaper result with public choice models of budget determination. Some use "voter illusion" to explain the result, others bureaucratic control of the political agenda, and still others the deadweight losses of S&L taxes. None of these explanations, to date, have received widespread acceptance. The median voter paradigm to which the flypaper effect is inconsistent continues to dominate the public choice literature.

To some, including the author, the problem may involve the empirical estimates themselves. All of the estimates for General Revenue Sharing, for example, were based upon behavior during a period during which the growth rate of S&L taxation was undergoing a profound shift-- the decade of the seventies. It is not unreasonable to believe that many governments found themselves in a disequilibrium situation, trying to accommodate budgets to the changing demography and voter tastes. Revenue Sharing, in such a situation, could have helped to ease the period of transition to the lower growth track, allowing budgets to be larger than they would be in the new equilibrium setting. The widespread "taxpayer revolt" of the late seventies is ample evidence of the pressures put on S&L governments. For many governments, particularly central cities, the problem has continued

into the eighties with the cutback of many federal social programs. Thus, it may be that, over time, the predictions of the median voter model will prevail.

The upshot of this discussion is that it would be imprudent to base an important policy change upon an empirical finding that is at odds with a model which enjoys widespread acceptance. To use an example, twenty years ago the preponderance of empirical work supported the hypothesis that, in the short-run, the corporation income tax was passed on to consumers -- a result totally at odds with the hypothesis of profit maximization. Over time, however, using different methods, economists have come to find that the burden of the corporation income tax falls upon owners of capital. By analogy, it seems premature to accept the flypaper hypothesis. Considerably more evidence is required before we should base policy upon this result.¹⁴

To conclude this section, it is not necessarily the case that tax deductibility will stimulate S&L spending by less than a program of General Revenue Sharing. Indeed, theoretical consideration suggest that the opposite may be true. In any event, the evidence is not sufficiently clear cut to conclude that tax deductibility is an inefficient form of subsidy to S&L governments. This is not to say that there are not grant mechanisms that could more effectively stimulate particular forms of S&L expenditures. But with respect to stimulating S&L expenditures in general, tax deductibility is not inherently inefficient.

IV. CONSEQUENCES AND CHARACTERISTICS OF THE FISCAL STIMULUS
PROVIDED BY DEDUCTIBILITY

We now turn to the question of whether or not the stimulus provided to S&L spending by deductibility can be justified. In a world without spillovers among communities (externalities), without S&L redistributive activity, and in which all S&L services are financed through benefit taxation, the answer is an unequivocal no. Left to their own devices, S&L governments, in these circumstances, would provide an optimal level of public services. Tax deductibility would lead to overconsumption of S&L services.

As pointed out earlier, however, these circumstances do not correspond to reality. S&L governments provide a wide variety of services which are enjoyed by citizens who reside outside the boundaries of the providing jurisdiction. S&L government also engage in income redistribution activities and benefit taxation tends to be the exception rather than the rule. The consequence of each of these factors for the desirability of S&L taxes shall be discussed in turn.

First, consider externalities. For obvious reasons, S&L governments will underprovide services which generate externalities. Deductibility, by lowering the tax price of all services, will stimulate the provision of externality producing services. It has long been believed, however, that a more effective means of dealing with interjurisdictional externalities is through a set of conditional grants targeted towards those activities which produce externalities. While this position seems plausible in theory, it has fared less well in practice. The proliferation of conditional

grants programs during the sixties and seventies resulted in an unwieldy morass of regulations and paperwork, substantially reducing the effectiveness of the grants. It is also now suspected that the federal bureaucracy, bound by rules of uniformity, is not capable of fine tuning a categorical grants program to account for significant differences among local situations. The result has been a gradual deemphasis of categorical grants in favor of "block" grants which can be used by recipient governments over a broad range of programs. The effect of block grants is not dissimilar to that of an unconditional grant such as General Revenue Sharing, because of the fungibility of resources. Hence, much of the ability to target federal resources towards externalities has been lost through blocking. It is not clear, therefore, that deductibility is a less effective means of dealing with externalities than its principal alternatives -- unconditional or block grants. While block grants may have some edge with respect to targeting in a broad sense, deductibility has the advantage of providing a price effect for stimulating spending.

Second, many S&L expenditure programs are explicitly or defacto redistributive in character.¹⁵ Deductibility fosters spending on such categories. However, the conventional wisdom has held that income redistribution should be left to the federal government. This is because citizen mobility can thwart attempts to redistribute and because there is a national interest in redistribution. Here again, conventional wisdom flies in the face of reality. S&L governments do redistribute without losing all of their population. Moreover, all levels of government have consistently chosen to provide much of their redistribution through in-kind transfer programs such as food, shelter, medical assistance, and

subsidized public services. Among the last are below cost provision of police, fire, education, transportation, and a whole range of other services.

These programs are precisely those provided by the S&L sector so that S&L governments must be part of the income redistribution process. But because the interest of those residing outside the jurisdiction providing the services are not taken into account, we tend to get too little S&L redistribution without federal intervention:

Just as in the case of externalities one can argue that such redistribution as is accomplished via deductibility could be more effectively achieved by a grant program targeted to the communities in which the poor reside. Here the argument is more telling because some of the benefits of deductibility accrue to communities where few poor live--e.g., affluent suburbs. Moreover, it should be relatively simple to define a grant formula which is targeted to the poor. Even so, at the state level, deductibility might come close to such a formula. For it is precisely those states who engage in vigorous redistribution to the poor, e.g., the Northeast, which obtain disproportionate benefits of deductibility. It may also be the case that the subsidy to wealthy suburban jurisdictions is not totally unwarranted for there are strong fiscal incentives for such communities to close their doors to the poor. The elimination of deductibility would serve to increase these forces. Even with these caveats, however, there are probably better ways of redistributing income to the poor than by the "trickling down" benefits provided through deductibility.

Third, let us consider the consequences of non-benefit taxation. The taxes used to finance S&L services will distort choices between work and

leisure, consumption and saving, between taxed and non-taxed commodities, and, most importantly, of where to live. These distortions and their associated efficiency costs may be taken into account when deciding upon the level of S&L services. Since they increase the costs of public services they can be expected to lead to a smaller public sector than otherwise. Deductibility, by reducing the effective marginal rates of S&L taxes, is an effective way of dealing with this problem. While one might argue that the higher federal tax rates needed to finance deductibility also produce distortions, this has no bearing on the argument at hand. For no S&L government will consider its impact on federal tax revenues when making its expenditure decisions. Finally, there may be a consequence of the fiscal stimulus provided by deductibility that we have overlooked in the discussion thus far. The stimulus applies to any expenditure financed by S&L taxes. There is the incentive, therefore, to have S&L governments provide goods and services that would have normally been provided by citizens themselves in the private sector. Instead of paying for private dancing lessons one could have the school district provide dancing as a part of its extra-curriculum activities. Or one could have a golf course provided by a municipality instead of through a private country club. In such situations, citizen-voters trade off some loss of control over the quality of services for the tax savings provided by deductibility.

The extent to which this is a serious problem cannot be resolved without considerable time and effort not available to us. However, the existence of public recreational facilities such as golf or tennis, is not *prima facie* evidence of abuse of deductibility. It may be social policy to

open up such activities to those with modest incomes. Indeed, the problem should arise only in connection with small, wealthy local jurisdictions where citizens can closely monitor the fiscal activities of their governments. It is difficult to imagine abuse in hard pressed central cities or in heterogeneous state jurisdictions.

To sum up this section, there are a number of legitimate reasons for promoting the expansion of S&L expenditures. In one case, the distortion caused by non-benefit S&L taxes, a general expansion is the objective.¹⁶ In the other two cases, externalities and redistribution, expansion is necessary for only selected services. For redistribution could probably be done more effectively through a program of compensatory grants to jurisdictions with high incidences of poverty. For externalities, however, deductibility could be as effective as any alternative which is open to the federal government.

V. OTHER CONSEQUENCES OF THE REPEAL OF DEDUCTIBILITY.

A. Reduced Productivity.

The repeal of tax deductibility could be interpreted within the context of moving towards a flat income tax or modified flat income tax. That is, the additional revenues afforded by repeal could be used to lower marginal rates of the existing federal income tax. Since the efficiency or deadweight losses of a tax are an increasing function of its marginal tax rates, such a change would appear to promote productivity of resources.

This may not necessarily be the outcome, however. The repeal of deductibility would result in higher marginal rates of S&L taxes for itemizers and hence increase deadweight losses at the S&L level. Indeed, the net result may be to lower productivity. For one thing, the excess burden of a tax varies with the square of the marginal tax rate. Since the benefits of deductibility are concentrated on itemizers the increase in their marginal tax rates will be greater than the across the board decrease given to the population at large. Hence, net excess burden might rise. The result is uncertain because the mix of increased S&L taxes is different than a simple tax on income. For another, S&L taxes are not uniform across jurisdictions. Repeal of deductibility is tantamount to increasing marginal tax rates of S&L taxes in proportion to existing levels. This would lead to a reshuffling of population among jurisdictions and/or a general decrease in S&L expenditure, both leading to efficiency losses.¹⁷

For these reasons, the efficiency reasons given to justify flat-taxes in general do not apply in the case of the deductibility of S&L taxes.

B. Distort the Tax Structures of S&L Governments.

If the contemplated reform is to eliminate the deductibility of personal S&L taxes while continuing the deductibility of business taxes, one might expect S&L government to respond by increasing their emphasis on business taxes. Indeed, in the case of personal income taxes, the states could deny the federal government any revenue gain by shifting to factor taxes, such as a value-added tax or a payroll tax. Such taxes would be

similar to income taxes except that they would be less progressive than most state income taxes now on the books.¹⁸

Interestingly, emphasis in existing studies has been given to the fact that, in the absence of deductibility, S&L governments would make greater use of user charges. This overlooks the continued deductibility of business taxes and the greater attraction such taxes would provide. And the incidence of business taxes is much less certain than for personal taxes, and may also seriously distort the spatial allocation of resources.

This consideration is not simply a theoretical curiosity. Recent work by Hettich and Winer (1984) has provided evidence that states respond to tax exporting in choosing their tax structures. These effects can be avoided only by denying the deductibility of business taxes. But such a change is neither likely nor desirable.

C. Incidence Effects

As pointed out above, the elimination of tax deductibility is equivalent to imposing new S&L property, sales, and income taxes upon itemizers. The increase will be proportional to existing tax rates. In the case of property taxes, this amounts to an increase in property taxes upon homeowners -- because the set of itemizers is almost identical to the set of homeowners. The increase in homeowner taxes will be largest in central cities and in the Northeast -- jurisdictions that are already fiscally beleaguered. In the short run the burden will be upon such homeowners. Nationally, this will tend to increase the progressivity of

the overall tax structure. Of course, the impact on a household of given income will depend upon where it is located. Thus, some higher income households will experience a smaller increase in property taxes than some lower income households. This detail is lost if one only considers national aggregates.

In the long-run, the burden of the higher tax on homeownership will be spread to those who own rental housing as well as other forms of capital. This reflects the tendency of the net returns to capital to be equalized. Since capital ownership is positively correlated with income, the result will remain a progressive incidence. However, there may be important excise effects to consider. Residents of high tax jurisdictions, renters as well as owners, will experience an increase in their housing costs, while the situation is reversed for low tax jurisdictions. This means that housing costs in the Northeast will rise relative to those of the South. Once again, the aggregate impact of the excise impacts--zero--masks important distributional effects. The poor in Northeastern cities will suffer higher housing costs while those in the South will enjoy lower housing costs.

A similar story can be told for income and sales taxes. In the short-run the incidence will bear disproportionately upon itemizers (homeowners) who live in high tax areas. In the long-run, such people will tend to migrate to lower tax areas. This will raise land costs and hence living costs in the recipient areas (opposite to property taxation) while lowering those in sending areas. Thus, the initial effects will be mitigated by migration.

In summary, the incidence effects of deductibility and its repeal are complex and involve effects such as changes in the costs of homeownership which are not obvious on the surface. In case of repeal, the burden, in the long run, of the higher S&L taxes will be felt by rich and poor alike, with the aggregate outcome exhibiting some increase in the progressivity of the tax structure. But the increase in progressivity will not be uniform. Some well-to-do will benefit and some poor will lose. Some gain of vertical equity will be achieved by some loss of horizontal equity.

D. Effects on the Progressivity of S&L Tax Structures

The effects of tax deductibility is to reduce the effective progressivity of S&L taxes because of the rising marginal tax structure of the federal income tax. Thus, a sales tax, which might be otherwise proportional in incidence, is converted into a regressive tax in net terms by deductibility. This will not go unnoticed by S&L officials. It will encourage them to choose tax rates structures as well as tax base definitions which will be more progressive than otherwise. If deductibility is eliminated so will be this incentive. Thus, the apparent increase in progressivity discussed in the last section may be offset by S&L governments' moving towards a more regressive tax structure.

VI. PARTIAL ELIMINATION OF TAX DEDUCTIBILITY.

An alternative to outright repeal is to eliminate some portion of deductibility. Several ideas have surfaced. One is to place a cap on deductibility, another to put a floor under it. Still another is to repeal the deductibility of the sales tax

Let us start with sales taxes. Our argument, though, would apply to the elimination of either the two other taxes. We can find no coherent basis for such a reform. There is, at best, a weak relationship between the payment of sales tax and the receipt of public service benefits. An this relationship presumes a monotonic relationship between income (and hence purchases), on one hand, and public service benefits on another. As we argued in section II, such a well behaved relationship may not exist. More importantly, it does not exist across space. Some states do not even use a sales tax and most local governments do not. Even among those units that use a sales tax, the extent of use is extremely variable. Elimination of sales deductibility would make the present Federal Income Tax more inequitable.

It is also not clear that repeal of sales tax deductibility will have any effect upon the level of Federal subsidy flowing to S&L governments. For these governments have several options open to them: (1) increase reliance on income, property, and business taxes; (2) convert the sales tax to a value-added tax which is deductible. In either event the stimulus to marginal S&L spending would not be materially reduced. Moreover, the revenue gain to the Federal Government would be significantly lessened.

The major effect of the proposal, then, would be to discourage the use of the sales tax as we now know it.

Next, consider a floor below the tax deduction. This could take the form of a flat dollar figure above which taxes are deductible or some percentage of income.

We consider the flat floor first. If set low enough, such a floor would not change the marginal incentives that currently exist to increase services. But it would still encourage S&L governments to shift to business taxes. With respect to tax equity a modest fixed dollar floor would constitute an improvement because all citizens enjoy some level of public service benefits. Thus, there is considerable merit to the idea of a floor if it is deemed desirable to maintain the spending and other incentives of present arrangements. In effect, a fixed dollar floor constitutes a lump-sum tax on itemizers. And such a tax would be progressive because the value of the floor is directly proportional to one's marginal tax rate. The floor could be computed as a percentage of average S&L financed expenditure upon non-redistributional programs.

A floor computed as a percentage of income would have many of the same attributes as a fixed dollar floor. Since S&L tax payments increase with income such an approach could yield greater revenue gains to the Federal Government and provide more progressivity. The difficulty, however, may be to find a percentage figure that does not remove a significant number of itemizers from those who enjoy marginal income tax reductions from the expansion of S&L expenditures. For this reason, it may be preferable to have a fixed dollar floor which grows over time with S&L spending.

A ceiling on tax deductibility, if chosen low enough, would remove virtually all incentive effects from the present system. All that would remain would be a redistribution of income from wealthy itemizers to less affluent itemizers and tax payers in general. While this would seem to be desirable on distribution grounds, i.e., it is more progressive than a floor, it creates similar horizontal inequities that full repeal would produce. In effect, it assumes that the only beneficiaries of S&L public services are those people that pay a good deal in taxes. Such an assumption seems untenable. If a ceiling is to be imposed, then, legislators would be best served by setting it at zero.

Thus, as a partial reform, a ceiling on deductibility has little to say for it. For it has the same incentive effects as total repeal but less fairness.

VII. CONCLUSIONS.

This brief survey of the consequences of S&L tax deductibility by households under the U.S. Personal Income Tax reveals them to be many, complex, and far reaching. It is unlikely that many of these effects were foreseen by the framers of U.S. Income Tax law, nor have some of them been considered by those who advocate reform.

Among our principal findings is that the equity case for total repeal is far from compelling. The connection between individual tax payments and service benefits is not a close one. This owes to the redistributive character of many S&L programs and the fact that poor are not uniformly

spread among S&L jurisdictions. At best, equity arguments can be used to put a floor on tax deductibility, reflecting the fact that all enjoy some level of S&L service benefits.

Another conclusion challenges the growing belief that S&L tax deductibility is a less efficient means of aiding S&L governments than a system of Revenue Sharing and/or Block Grants. Such arguments tend to confuse the income and price effects of the spending stimulus provided by the alternative mechanisms. Unlike the grants approach, tax deductibility offers a price stimulus to spending.¹⁹ Grants can be more effective only if they have a more powerful income effect; but here, the evidence is far from complete.

A third conclusion is that S&L governments may respond to the partial or total repeal of personal tax deductions by redirecting and redefining their tax systems towards business taxes. Sometimes the change will be cosmetic, only changing the locus of the tax payment. Other times it will be substantive, leading to distortion in resource allocation as well as highly uncertain incidence effects. This "loophole" will be very difficult to close so that lawmakers should be fully appraised of its existence.

Finally, repeal will add far less progressivity than is suggested by looking at the aggregate distribution of tax deductions across income classes. The increased effective rates of S&L taxes will be shifted towards rich and poor alike in other jurisdictions. Moreover, S&L governments may react by reducing the progressivity of their own tax structures.

Endnotes

¹This estimate was taken from Noto and Zimmerman (1983).

²The very same argument can be made for property tax finance if the income elasticity of the demand for housing is unity. A qualitatively similar argument can be made for any degree of progression of the tax system; all that matters is that taxes and income are positively correlated.

³Let

$$q = D(p, I)$$

$$p = I/Y$$

where q = public service demand, p = tax price, I = income, and Y = community income. Then

$$dq/dI = q/I(E_I - E_p)$$

⁴This follows trivially from the fact that, at their prevailing tax price, the well-to-do have excess demand.

⁵This conclusion is based upon the assumption of declining marginal benefits from public services.

⁶Of course we might still have some problem of horizontal inequity; similarly situated individuals might enjoy widely different net fiscal benefits.

⁷Gramlich and Rubinfeld ((1982) allege to have found a "pro-rich" bias in the supply of local public services in Michigan. Such a bias, however, is measured gross of tax paid and cannot be used to refute our contention here.

⁸The characterization of defensive outlays was first made by Bradford, Malt, and Oates (1969). For a further elaboration, see Hamilton (1983).

⁹For a discussion of the quantitative significance of such redistribution in large urban areas, see Oakland (1979).

¹⁰The repeal of deductibility could be viewed as a revenue measure and thus have income effects. But such an action should be evaluated as an alternative to other revenue enhancing measures -- e.g. raising tax rates. Hence, it is appropriate to abstract from income effects.

¹¹For a survey of the literature see the companion piece by F.T. Sparrow (1985).

¹²The compensated and uncompensated elasticities differ by the product of the share of S&L expenditure in total income and the income elasticity of demand for public services. Assuming the latter to be unity and the former to be ten percent, we arrive at the reduction factor of .1.

¹³This argument abstracts from the distributional differences between a Revenue Sharing Program and tax deductibility.

¹⁴This argument is more than conjecture. Gramlich and Rubinfeld (1982)'s estimates imply that the "flypaper" result does not hold for Michigan in the early 80's. The effect of income on public spending is greater than the effect of unconditional grants.

¹⁵For an estimate of the quantitative significance of such redistribution, see Oakland (1976).

¹⁶With the exception of course, of publicly provided private services.

¹⁷This outcome reflects our working hypothesis that S&L taxes are not benefit charges. If they are, the present system distorts the spatial allocation of resources and repeal would eliminate the distortion.

¹⁸One might think the states could also thwart repeal by shifting the legal liability of the retail sales tax from the consumer to the firm. This would not affect federal tax receipts, however, because the sales tax would become part of the firm's taxable receipts as well as a deductible expense.

¹⁹The present Revenue Sharing Program does have a price effect because of a tax effort component in the formula. Relative to tax deductibility, however, this incentive is small.

References

- Bradford, D., R. Malt, and W. Oates, June 1969, "The Rising Cost of Public Services: Some Evidence and Reflections," National Tax Journal, 185-202.
- Gramlich, E. and Rubinfeld, June 1982, "Micro Estimates of Public Spending Demand Functions and Tests of the Tiebout and Median-Voter Hypotheses," Journal of Political Economy, 536-60.
- Hamilton, B., December 1983. "The Flypaper Effect and Other Anomalies", Journal of Public Economics, 347-61.
- Hettlich, W. and S. Winer, June 1984. "A Positive Model of Tax Structure", Journal of Public Economics, 67-88.
- Inman, R. 1971, Four Essays on Fiscal Federalism Ph.D. dissertation, Harvard, as reported in Inman, 1979, "The Fiscal Performance of Local Governments: An Interpretive Review", in P. Mieszkowski and M. Straszheim (eds.), Current Issues in Urban Economics, Johns Hopkins Press, Baltimore, Md.
- Noto and Zimmerman, 1983. Limiting State Local Tax Deductibility in Exchange for Increased General Revenue Sharing, Congressional Research Service, U.S. Govt. Printing Office, Washington, D.C.
- Oakland, W. 1976, "A Rationale for Federal Government Intervention in Housing: Distortions Arising from Present Fiscal Arrangements at the Local Government Level, in Housing in the Seventies Working Papers U.S. Government Printing Office, Washington, D.C., 459-73.
- Oakland, W., 1979, "Central Cities: Fiscal Plight and Prospects for Reform," in P. Mieszkowski and M. Straszheim (eds.) Current Issues in Urban Economics, Johns Hopkins Press, Baltimore, MD.
- Sparrow, F., 1985, "The Subsidy Value and Incidence of Tax Expenditures which Benefit State and Local Governments -- The Case of the Property Tax," report submitted to U.S. Treasury.

Representative OBEY. Thank you very much. Mr. Minarik.

**STATEMENT OF JOSEPH J. MINARIK, SENIOR RESEARCH
ASSOCIATE, THE URBAN INSTITUTE, WASHINGTON, DC**

Mr. MINARIK. Thank you, Mr. Chairman. One of the major provisions of the Reagan administration's proposed individual income tax reform plan is the repeal of the deductibility of State and local taxes. This step is estimated to increase revenues by roughly \$35 billion per year by the end of the decade. Obviously, this is a course neither to be taken lightly nor to be casually deleted from the plan.

My brief prepared statement today from my own perspective of reform of the Federal income tax will be divided into two parts: First, is the repeal of the deductibility of State and local taxes economically wise? And second, would the repeal of State and local tax deductions help us to attain badly needed tax reform?

To betray my conclusions at the outset, it seems to me that the economic arguments for repealing all State and local tax deductions, though they have some appeal, do not obviously dominate the case for retaining the deductions. But beyond those considerations, I believe that a tax reform package without the State and local deductions is in for much rougher sledding than would be another plan that retained those deductions.

First of all, does it make economic sense? The main economic argument against the State and local tax deductions, as articulated by the Treasury, is that these taxes are voluntary costs incurred by residents of each locality to provide services to themselves. By making these costs deductible, the current Federal income tax law unfairly and inefficiently subsidizes those who voluntarily choose to provide themselves with more of these services. Furthermore, some of these services might be provided by private businesses, and the tax deduction inefficiently subsidizes public delivery.

Well, maybe. Some State and local government services might be seen as direct benefits to taxpayers, and some can be provided through either a public or a private mode. But a traditional argument of economists has been that governments are formed to provide services that the private market would not produce, or would produce in insufficient supply. And the reason for this undersupply is that these services provide general benefits to society, not the direct benefits to individuals claimed in the Treasury argument.

As both the previous witnesses have argued, one can look at the educational systems provided by State and local governments as an instance where relatively well-to-do Federal taxpayers provide the funds to supply education to the population at large. If the cost of those educational services is increased to those people who could afford to go outside of the public systems and into the private market, they may well lobby and vote to reduce the size of those public systems. A cutback in the public systems has an effect on the entire population, including those who are not affected by the Federal tax change whatsoever.

It's even more clear when one goes from the education function to the public income support function that upper income taxpayers, those who pay substantial tax liabilities under the Federal income tax, are providing support to people who are not taxpayers, and

that this is a function that is not a direct benefit to the taxpayers themselves. As I point out in my prepared statement, education costs are approximately 40 percent of the total expenditures of State and local governments and income support for low-income people is approximately another 16 percent. So we are talking about the majority of State and local expenditures in these two areas where we really shouldn't look at these expenditures of State and local governments as being direct services to individuals.

Nonetheless, I think the Treasury proposal does have some merit in the sense that the deductibility of State and local taxes can encourage the provision of gold-plated services in affluent localities. But keep in mind that reduced tax rates will curb such practices even if State and local tax deductions are retained. Under the current law, a public swimming pool, cabana and spa would cost a locality of top-bracket taxpayers 50 cents on the dollar after the Federal deduction; under the Treasury's tax rates it would cost 65 cents. Note that other tax plans, such as the Bradley-Gephardt proposal, would achieve even lower tax rates, and thus a higher private cost. This is a marginal but a significant increase in the private cost of gold-plated, tax-deductible projects. It is, further, a reflection of the general amelioration of all remaining distortions and inequities that tax reform and rate reduction can bring.

But in the area where I've spent most of my time, Mr. Chairman, I'd like to look at the question of whether repeal of these deductions would help to achieve tax reform.

The Treasury asserts that the very large revenue cost of the State and local tax deductions is a crucial roadblock to tax reform. To quote from the general explanation of the provisions of Treasury I, "Unless those revenues are recovered, the rates of tax on nonexcluded income will remain at their current unnecessarily high levels."

Well, perhaps. There is no denying that revenue gained in any one part of a tax reform package allows other parts to be more lenient toward particular interests. It may be that absent those revenues, the necessary heavier taxes on some other sector of the economy would capsize the package politically.

But the repeal of State and local tax deductions imposes pain of its own. That pain will be concentrated on middle- and upper-middle-income families, mostly homeowners, who live in high-tax areas. Those taxpayers now itemize their deductions, but they will lose much of that relief with the repeal of the State and local tax deductions. In some areas of the country, that loss will be sufficient to more than offset the higher personal exemptions and the modest rate reductions at middle-income levels. The taxpayers hardest hit will be those with the least flexibility in their family budgets, precisely because their State and local tax bills are large.

This causes two problems. First, these taxpayers could comprise another pressure group opposed to tax reform on grounds of pure self-interest. But second, and even more troubling, it could erode the image of fairness that tax reform must achieve. Remember that State and local tax deductions are not manipulative; they do not figure in tax shelter schemes, unlike some of the preferences that were treated more kindly in the administration plan. What is the answer to a middle-income homeowner who wonders why the

oil and gas lobby got away essentially scot-free, while his State and local tax deductions were declared an egregious loophole?

Any reduction of tax rates would narrow the tax differential between high-tax and low-tax regions, by reducing the value of any additional deductions. But retaining the State and local tax deductions would eliminate the potential political problem of the Treasury approach by providing a "cushion" for residents of high-tax areas. The tax differential among geographical areas would be reduced, but not eliminated.

Let me digress just for 1 minute if I might, Mr. Chairman, on a point that the President raised in his address last night.

The President said—and that sentiment has been echoed elsewhere—that nonitemizing taxpayers, those who claim the standard deduction, are in effect subsidizing itemizing taxpayers through the deductibility of State and local taxes. I think that's a very tricky question and I think we have to look at that conclusion somewhat critically.

Suppose that the President had suggested as a part of his tax reform plan that we repeal the zero-bracket amounts. So, in other words, every taxpayer, regardless of his income level and regardless of the deductions that he could claim, would have to itemize his deductions. In that case, low and lower middle-income taxpayers who are now claiming the standard deductions would have to fill out schedule A and enumerate all of their deductible expenses, including, let's say for the sake of argument, State and local taxes.

We can conclude by the fact that these people now choose to claim the zero-bracket amount, that if we repealed it they would have to pay higher taxes. But they would be claiming State and local tax deductions just the same as people who now itemize. Would that mean that those people were no longer subsidizing upper income taxpayers who itemize those deductions, even though the lower income taxpayers were paying more because they couldn't claim the zero-bracket amount?

I think we have to look at this question somewhat critically. The function of the zero-bracket amount is in large part to save many taxpayers, almost two-thirds under the current law, the obligation of recordkeeping and the complication of filling out their itemized deduction.

I don't think we should jump to the conclusion then that people who are saved the obligation of writing out all their State and local taxes and given a tax reduction besides by the generosity of the zero-bracket amount are necessarily subsidizing those who itemize the deductions that the zero-bracket taxpayers don't have to itemize.

For my conclusion, Mr. Chairman, I think the Treasury's arguments against the State and local tax deductions have some merit. In my judgment—and I have to be honest about this—from my concern about the state of the Federal Tax Code, if the only alternative to the current Federal income tax were a reformed system with no State and local tax deductions, we should take that reformed system.

Fortunately, however, we don't have to make that choice. The Bradley-Gephardt bill has demonstrated that we can attain a revenue-neutral tax reform—which on the individual side, I might add,

raises more revenue than the President's proposal—without eliminating the major State and local tax deductions.

But again, I think we have to be responsible and we must understand that if we do retain State and local tax deductions within the shell of the President's proposal, we have some ground to make up. We would have to raise more revenue. Such a tax reform would require a tougher and more even-handed approach than some might like. It would require real taxation of fringe benefits. It would require a more rigorous stand on industry benefits and, in all likelihood, it would also require some limit on the value of itemized deductions across the board, such as the Bradley-Gephardt restriction of deductions to a 14-percent basic tax. It could also require elimination of deductions for minor State and local taxes, including the sales tax.

I would ask you to note that the sales tax deduction has only a limited impact even under the current tax law. In 1982, only about 18 percent of all State and local general sales tax liabilities were deducted on Federal individual income tax returns, compared to almost 85 percent of income taxes and at least 32 percent of real property taxes. This is because the sales tax, being regressive, bears disproportionately on low-income households who tend not to itemize their deductions. So if it were necessary, Mr. Chairman, I would suggest that the sales tax deduction and the personal property tax and other minor deductions might be sacrificed to obtain the more important deductions of the more important taxes, which are the income and property taxes.

These would be tough choices, but the benefits of tax reform in terms of economic efficiency and public morale could be immense. It is entirely possible that these benefits would be better and more likely attained without elimination of the major State and local tax deductions.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Minarik follows:]

PREPARED STATEMENT OF JOSEPH J. MINARIK ¹

SHOULD WE REPEAL THE STATE AND LOCAL TAX DEDUCTIONS?

One of the major provisions of the Reagan administration's proposed individual income tax reform plan is the repeal of the deductibility of state and local taxes. This step is estimated to increase revenues by roughly \$35 billion per year by the end of the decade. Obviously, this is a course neither to be taken lightly nor to be casually deleted from the plan.

My brief prepared statement today will be divided into two parts: First, is the repeal of the deductibility of state and local taxes economically wise? And second, would the repeal of state and local tax deductions help us to attain badly needed fundamental tax reform?

To betray my conclusions at the outset, it seems to me that the economic arguments for repealing all state and local tax deductions, though they have some appeal, do not obviously dominate the case for retaining the deductions. But beyond those considerations, I believe that a tax reform package without the state and local deductions is in for much rougher sledding than would be another plan that retained those deductions.

DOES IT MAKE ECONOMIC SENSE?

The main economic argument against the state and local tax deductions, as articulated by the Treasury, is that these taxes are voluntary costs incurred by residents of each locality to provide services to themselves. By making these costs deductible, the current federal income tax law unfairly and inefficiently subsidizes those who voluntarily choose to provide themselves with more of these services. (Furthermore, some of these services might be provided by private businesses, and the tax deduction inefficiently subsidizes public delivery.)

¹ Opinions expressed herein are the author's alone and should not be attributed to The Urban Institute, its officers, trustees, or funders.

Well, maybe. Some state and local government services might be seen as direct benefits to taxpayers, and some can be provided through either a public or a private mode. But a traditional argument of economists has been that governments are formed to provide services that the private market would not produce, or would produce in insufficient supply. And the reason for this undersupply is that these services provide general benefits to society, not the direct benefits to individuals claimed in the Treasury argument.

A crucial area where this problem of undersupply may interact with deductibility is education. The Treasury asserts that taxpayers can choose how much of public services, like education, they want to buy; and that that choice is the most efficient one. Clearly, left to their own resources, the most affluent taxpayers could provide adequate education for their own children; and so if the cost of public education rose, as through repeal of state and local tax deductions, those taxpayers would likely wish to cut back on public systems. But the future of our country depends not on the education of the few, or even of the most affluent 50 percent plus one, but rather on that of the entire population. The state and local tax deductions encourage the expansion of public education, when a more market-oriented approach might lead to a deterioration. Thus, education can be seen as a general benefit to society, as well as a direct benefit to taxpayers. Note that education is the largest single expense of state and local governments, comprising 40 percent of total expenditures in 1982, according to the national income and product accounts.

Like the provision of public education, income support for the poor might be seen not as a direct benefit to taxpayers, but as a transfer to those whose incomes are low enough that they pay little or no federal income taxes. In parts of the country where the cost of living is high or where low-income

people historically have been concentrated, the cost of these transfer services is relatively greater. Many of these costs are borne through state and local taxes. Eliminating the deductibility of these taxes could lead to reductions in services for the low-income population, or in the extreme, to a "beggar thy neighbor" war in which urban areas race each other to cut welfare benefits and encourage outmigration of their low-income populations.

Nonetheless, the Treasury position has some merit; the deductibility of state and local taxes can encourage the provision of gold-plated services in affluent localities. But keep in mind that reduced tax rates will curb such practices even if state and local tax deductions are retained. Under the current law, a public swimming pool, cabana and spa would cost a locality of top-bracket taxpayers 50 cents on the dollar after the federal deduction; under the Treasury's tax rates it would cost 65 cents. (Note that other tax plans, such as the Bradley-Gephardt proposal, would achieve even lower tax rates, and thus a higher private cost.) This is a marginal but a significant increase in the private cost of a tax-deductible project. It is, further, a reflection of the general amelioration of all remaining distortions and inequities that tax reform brings.

WOULD IT HELP TO ACHIEVE TAX REFORM?

The Treasury asserts that the very large revenue cost of the state and local tax deductions is a crucial roadblock to tax reform. To quote from the general explanation of the provisions of "Treasury I", "Unless those revenues are recovered, the rates of tax on nonexcluded income will remain at their current unnecessarily high levels." (Volume 2, page 63. Emphasis added.)

Well, perhaps. There is no denying that revenue gained in any one part of a tax reform package allows other parts to be more lenient toward

particular interests. It may be that absent those revenues, the necessary heavier taxes on some other sector of the economy would capsize the package politically.

But the repeal of state and local tax deductions imposes pain of its own. That pain will be concentrated on middle- and upper-middle income families, mostly homeowners, who live in high-tax areas. Those taxpayers now itemize their deductions, but they will lose much of that relief with the repeal of the state and local tax deductions. In some areas of the country, that loss will be sufficient to more than offset the higher personal exemptions and the modest rate reductions at middle-income levels. The taxpayers hardest hit will be those with the least flexibility in their family budgets, precisely because their state and local tax bills are large.

This causes two problems. First, these taxpayers could comprise another pressure group opposed to tax reform on grounds of pure self-interest. But second and even more troubling, it could erode the image of fairness that tax reform must achieve. Remember that state and local tax deductions are not manipulative; they do not figure in tax shelter schemes, unlike some of the preferences that were treated more kindly in the administration plan. What is the answer to a middle-income homeowner who wonders why the oil and gas lobby got away essentially scot-free, while his state and local tax deductions were declared an egregious loophole?

Any reduction of tax rates would narrow the tax differential between high-tax and low-tax regions, by reducing the value of any additional deductions. But retaining the state and local tax deductions would eliminate the potential political problem of the Treasury approach by providing a "cushion" for residents of these high-tax areas. The tax differential among geographical areas would be reduced, but not eliminated.

CONCLUSION

The Treasury's arguments against the state and local tax deductions have some merit. In my judgment, if the only alternative to the current federal income tax were a reformed system with no state and local tax deductions, we should take that reformed system.

Fortunately, however, we need not make that choice. The Bradley-Gephardt bill has demonstrated what we can attain a revenue-neutral tax reform without eliminating the major state and local tax deductions.

We must understand, however, that such a tax reform requires a tougher and more even-handed approach than some might like. It requires real taxation of fringe benefits, a more rigorous stand on industry benefits, and in all likelihood some limit on the value of itemized deductions across the board (such as the Bradley-Gephardt restriction of deductions to a 14 percent basic tax). It could also require elimination of deductions for minor state and local taxes, including the sales tax. (Note that the sales tax deduction has only a limited impact even under the current law. In 1982, only about 18 percent of all state and local general sales tax liabilities were deducted on federal individual income tax returns, compared to almost 85 percent of income taxes and at least 32 percent of real property taxes. This is because the sales tax, being regressive, bears disproportionately on low-income households who tend not to itemize their deductions.)

These would be tough choices, but the benefits of tax reform in terms of economic efficiency and public morale could be immense. It is entirely possible that these benefits would be better and more likely attained without elimination of the major state and local tax deductions.

Representative OBEY. Thank you all.

Let me ask Mr. Oakland—you obviously are not enthusiastic about the prospect of eliminating the deductibility of State and local taxes. You say that you prepared a study for the Treasury Department on that subject?

Mr. OAKLAND. Yes; I have it with me here.

Representative OBEY. Has the Treasury Department yet released that study?

Mr. OAKLAND. I'm not entirely sure. I checked with the Treasury Department and they said it would be no problem with submitting it to the committee.

Representative OBEY. Fine. We would certainly like to have it, but to my knowledge, the Treasury Department had not yet released this study and that's why I was especially anxious to get it in the record today if I could.

To start right here where we're all sitting today, we are in a city which has, I believe, a top tax rate of 11 percent in the District. My understanding is that the top rate in Virginia is 5.5 percent, just across the river.

Representative STARK. 6.3 and 10.7 here.

Representative OBEY. OK. What are the public policy implications in an area like this, for instance? Obviously, I care about my own area more, but this, I think, is a good example of an area which has large differentials between taxation levels at the local level. What are the public policy implications of the repeal of this provision of existing law in terms of the ability, say, of the core city to retain higher income taxpayers which I assume provide a significant share of revenue to the District of Columbia government?

Mr. OAKLAND. Well, Mr. Chairman, I think you've answered some of your own questions there. It seems to me pretty clear that the flight to the suburbs of the middle and upper income classes that have so plagued our central cities and seems to have been tapering off in recent years might well be resumed.

Certainly, we're going to increase the cost of having to reside in the District. People make these decisions at the margin and they may not be insubstantial. So, therefore, the ability of the District to provide services, including services to the low-income residents of the District, I think will be curtailed and if the District tried to respond by raising its tax rates, it's simply going to cause further flight.

Representative STARK. Would the gentleman yield at that point?

Representative OBEY. Sure.

Representative STARK. There's already a difference of 2-to-1 between the District and Virginia. So let's take in a microsense our well-to-do District resident. He or she has not opted to move across the river to cut their State tax rate in half at this time—correct?

Mr. OAKLAND. They are current District residents, by definition.

Representative STARK. I'm just saying, with almost double the rate, there's no option on the margin to move across the river at this point?

Mr. OAKLAND. But I would suggest that there are many would-be District residents who are out there already because of that 2-to-1 differential.

Representative STARK. All right, but I'm just talking about the present ones.

Now on the margin—I would never, obviously, had I ever tried to write a Ph.D. dissertation, could I pass this board if you were examining me, so I don't mean to question your credentials—but I just want to talk about on the margin, if the person paying, for the sake of simplicity, a 10-percent District tax and, in fact, at a 50-percent margin, he is paying 5 percent of his income to the District government if I calculate this all correctly. Under the proposed tax reform plan, if I calculate this properly, he will be saving much more than that. He will be saving 15 percent of his income, rather than 5 percent.

Now give me some marginal economics that make me want to go to Virginia because it will still be the same balance where I've already picked up a 10-percent increase in my income.

Mr. OAKLAND. Well, I think that—

Representative STARK. Just on the margin.

Mr. OAKLAND. Well, I think your reasoning is correct, other than the fact that the 15-percent saving will accrue whether or not you live in the District.

Representative STARK. OK. But I didn't move before, why am I going to move now?

Mr. OAKLAND. Well, currently the tax spread, the saving, if I've got your figures correctly—the District tax is 10 and the Virginia tax—

Representative STARK. 10.7 and 6.3.

Mr. OAKLAND. So, for the sake of argument, the effective differential is between 5 percent and 3 percent, a 2-percent differential. If you eliminate the deduction, it's a 4-percent differential.

Representative STARK. But my income goes up and that's going to make me move on the margin?

Mr. OAKLAND. Well, your income will go up wherever you live. The point is, you still can save 2 percent of your income by moving. You will have a greater incentive to move now than you did.

Representative STARK. And I can now save 5 percent.

Mr. OAKLAND. No. Right now you can only save 2 percent.

Representative STARK. 2.5 percent.

Mr. OAKLAND. Right. Some people are more sensitive to those differentials than others and I think you could increase the spread to 25 percent and still keep some residents in the District, but—

Representative STARK. By that token, we should all move to New Hampshire or Nevada, right?

Mr. OAKLAND. Or Louisiana.

Representative OBEY. Let me pursue the argument that has been made and I know you have touched on almost all of these questions in your statement but I'd still like to get your responses in the record in terms of the specific points that are usually raised in defense of the administration's position.

Mr. Regan, the Treasury Secretary, said a few weeks ago that after all, the existing deduction simply protects high-income people in high tax States and that you really don't want to be in the position of just defending their interests, so the deduction ought to go.

You have already referred to it in your testimony, but I wonder if any of you would like to again specifically respond to that specific allegation. What's wrong with that argument?

Mr. OAKLAND. If the intention or the goal is to put a higher tax on the rich, there are a lot fairer ways of doing it, such as raising the rate. Admittedly there is a poor-rich bias to the deduction provision, but it's so unfair to eliminate it—the differences among rich people and between different middle-income people are so great that it's much fairer, if you want to tax the rich, go ahead and tax them. Let's raise their marginal rates. Let's not do it by taking a provision that on average penalizes the rich but not in all cases. That would be my response.

Mr. RAIMONDO. Mr. Chairman, you have already mentioned this in some statistics which you read in your opening statement about who actually uses the deduction, and Mr. Minarik has talked about this in terms of whether the users of the standard deduction are benefiting or not relative to those who use the itemized deduction.

I would like to add a third element to this analysis. It would be to raise the point again that in most State and local tax systems, we have redistribution going on. It is inevitable. Economists like to talk about people grouping around the public services which they desire so that in effect for every dollar of taxes they pay, they are getting a dollar's worth of public services. Well, that works in theory but not very much in practice.

Empirical studies have shown that State and local tax systems indeed are redistributive, and redistributive is just a fancy way of saying that those of upper income are taking some of their money to pay for services—in many cases, education—for lower income people.

While it might be true that this deduction does benefit high-income people to some extent, let's focus on what it actually buys at the State and local level. It buys some subsidized State and local services like education, recreation, road maintenance, sanitation, sewage, police, fire protection, that people of lower income could not afford if they had to pay for all of this themselves.

So, in effect, by eliminating the deduction, you are penalizing States that are trying to provide adequate levels of services and doing it willingly by taxing in a progressive fashion.

Now that was the incentive—one of the incentives that the deduction introduces. Its elimination would take us away from that.

I feel that the elimination of the deduction puts the Federal Government in a position of backing away from its redistributive function. We have seen that over the last 4 or 5 years, that the Federal Government has constantly backed away from its redistributive obligations. This may be less dramatic than what has happened over the first 4 years of the Reagan administration, but it is yet another example where the Federal Government is backing out of redistribution and saying to the 50 States, "Hey, guys, go it alone. We're not a country. We are 50 unequal States. Everybody do it your own way." And I think that's unfair.

Mr. MINARIK. Mr. Chairman, if I could just add one thing, and I hope not to harp excessively on the issue of the sinkability of Federal income tax reform, but if you look at the pattern of changes in tax liabilities under the current version of the Reagan plan, there's

an overall tax cut on average of 7 percent for individual taxpayers. Within the \$30,000 to \$50,000 income range, that tax cut, however, is about 6 percent; and in the \$50,000 to \$100,000 income range, that tax cut is about 4 percent.

Now that's a figure that you achieve on average across the entire country. There is a dispersion around that average and one of the major ways in which you can determine who gets worse than that and who gets better than that is the State and local tax liabilities that are paid in particular areas.

It's very hard to determine exactly what the outcome is, but it seems to me a lot of these upper middle-income taxpayers who are relatively numerous and who are vocal in areas of the country where tax liabilities tend to be relatively high will figure out at some stage in this political process that they are not going to get the average tax cut for the population; rather, they are going to get something less than that and possibly might wind up paying more.

And it seems to me that that puts this proposal into political jeopardy that I think many people who are interested in achieving Federal income tax reform would like to avoid if it were possible, and as I said, I believe it is possible by following other courses of raising revenue than repealing these deductions.

Representative OBEY. Let me just ask one more question and then pass the witnesses to Congressman Stark.

The administration makes the argument, following up on the comments that you've been making, that if people really don't like the fact that some States are high tax States, they can vote with their feet and they can go to different States. There's been a disagreement here about whether that's likely to occur or not, but the administration says that if people don't like the sweat in the high tax State, they can go someplace else.

In your judgment, who is likely to do that, No. 1? And second, if there is any significant voting with feet in that manner, what are the results, in your judgment, going to be in the States which they left? Insignificant, moderately significant—how do you measure them?

Mr. OAKLAND. I don't believe that the evidence suggests that there's going to be a large interstate migration. There might be in certain areas such as in the New York City area between the city and New Jersey or in the Washington area. The major kind of migration that would occur would be I think between cities and suburbs where you have tax differentials existing—considerable tax differentials between central cities and suburban areas and the tax repeal or the deductibility repeal will widen those. I think generally that's the consensus, that tax differentials do not lead to major migrations among States, among regions.

To that extent, therefore, one cannot escape, using the administration's argument again—one cannot escape the high taxes for redistribution but, rather, one tends to put up with it and simply pays it. To that extent, the deductibility softens that.

Representative OBEY. So your argument is that there may be minor movement of people through time, especially from the central cities to suburbs but that the most likely impact in the high tax States, if that deduction is eliminated, is pressure from the segment of the population most affected to reduce the level of services

within that State which are causing the pressure on them for those tax payments.

Mr. OAKLAND. I think that's a fair assessment and we shouldn't underestimate the power of that group.

I also would point out that the business community will also—there will also be that heightened competition for business firms which will also put the same downward pressure on the level of services provided by State and local governments.

Mr. MINARIK. If I could add just a little bit there, Mr. Chairman, I think Bill was making a point earlier that when we talk about this kind of a change having an effect we don't necessarily believe that people now living in the District will get up and move to Virginia in great or even significant numbers.

I think the issue becomes when a person who lives in the District is offered a job somewhere else, another region of the country entirely, when he considers his spendable income here in the District considering the taxes that he has to pay, will he be likely to move somewhere else in the country? When he moves, then another question becomes, what can he get for his property?

If paying District income and property taxes is an unavoidable aspect of buying a house in the District and somebody else is moving to the area and is looking for a house either in the District or in Virginia, he doesn't have the cost of picking up and moving from the District to Virginia. He's moving anyway. The question is, Where does he want to buy?

And one would expect that if the marginal cost in terms of taxes of living in the District becomes greater relative to Virginia, that people moving into the area will look more favorably on homes in Virginia and therefore one would expect property values in the District to either decline or rise less rapidly than they otherwise would and property values in Virginia to rise perhaps more rapidly than they otherwise would.

So the changes may be marginal and they may be small, but they will be felt in the District because of that relative tax advantage and the shift in the terms of trade between District and Virginia properties that would occur.

Representative OBEY. Congressman Stark.

Representative STARK. Thank you, Mr. Chairman.

You said quite eloquently, Mr. Minarik, when you suggest in your testimony that the middle-income homeowner wonders why the oil and gas lobby got away essentially scot-free, and I'm not sure that's the issue. I don't think anybody in this room really thinks that anybody should have been let out of the box if we're truly going to do reform. So here's just one other problem we're faced with, a group saying let's let this deduction out and if we let many more out, then we might as well give up in the Ways and Means Committee in terms of doing anything.

I'd like to back up and see whether any of you gentlemen know how this State and local tax deduction got into the code in the first place, as oil depletion snuck in and we had trouble getting it out. Does anybody remember why we put the deduction of State and local income taxes in to begin with? None of you are old enough to remember.

Mr. MINARIK. Remember is not the word.

Mr. OAKLAND. I remember seeing some references to that and I believe it was in a study by the Congressional Research Service.

Representative STARK. Let me refresh your mind. It was when the marginal rates were 90 percent and if in fact we had not, we would have had some people paying in effect more than 100 percent of their marginal income over \$100,000 and it was decided in the wisdom of the then Ways and Means Committee and the Senate Finance Committee that that was more than the public would stand for.

So in an effort to keep the marginal rate below 100 percent in the aggregate—and this happened to be in the early 1940's—we decided to allow the deductibility of State and local taxes as a sop to those poor folks in those days grossing out over \$100,000 a year who were in the 90-percent bracket.

Now, like too many tax advantages to the rich that get into the code, they become like dog poop on your shoe and they are very hard to get rid of and the harder you stamp on them, the worse they become.

These deductions I think your statement indicates are regressive, probably elitist. We are leaving in one of the major tax advantages to the homeowner, which is the deductibility of home mortgage interest, which I would gladly trade if you want for this, which would bring us in much more revenue, but we continue to discriminate basically against the poor, the renter, and that hardly seems like something that reform ought to continue to do.

One of the things that you overlook in your testimony is that for those States that use the Federal code as a base, we will broaden their base in the State collection of income tax by the Federal broadened base and there will be some diminishing then of the effect on the States which may lose revenue because they can't raise their taxes. That ought to be cranked into your calculations. I hope, Mr. Oakland, you took cognizance of that in your report to the Treasury.

As to tax on the tax, assuming that you all represent the States, you are in the minority because States don't happen to think this is a tax on a tax. Only seven States allow the deductibility of corporate income tax and only 16 States allow the deductibility of Federal income tax for individuals from their own State tax calculations.

So that you've got to have the argument both ways. These arguments should really be in fact doubled-edged swords.

The President says that 80 percent of the people are going to pay the same or less tax. That I will reserve the right to review as we go through the hearings on this and see how that shakes down.

But the other point is, you keep bringing up education. One thing is that if you assume that only those third of the population who itemize are the people who control State governments—and that may very well be the case in many States—that's unfortunate and undemocratic, but it may, for instance, in Alabama, Mississippi, Virginia, Louisiana be the case, that the States are controlled and their local government by the very rich and the very powerful. You have all seen the battles we have had with education there, where the continuing public support of public education is reserved largely for minorities and it is continually decreased as the very rich who probably we assume itemize continue to create private

schools in an attempt to get them tax deductible through a series of Bob Jones type flim-flams on the code.

So I guess what I'm saying is that as a fairly regressive tax, there's very little that can defend leaving it in, particularly, as Mr. Minarik suggested, it was the last item on the agenda as compared with the deductibility of intangibles, 6,000 barrels a month on depletion hardly sounds like a very "Mom and Pop" operation to me—that's patently more unfair.

But I just think this is one of the many items that if we let it out of the box we may very well end up with no reform. There will be no argument that we could lower the marginal rate and at some point the marginal rate if it got low enough this would be an academic exercise, but I'm afraid that absent some—if we were to argue Treasury I, and this was basically one of the few things that was left in, I would ask you, would your feelings be different, Mr. Minarik?

Mr. MINARIK. Could I go back to the beginning, Congressman Stark, if I could?

Representative STARK. Sure.

Representative OBEY. Would you yield for one second?

Representative STARK. Sure.

Representative OBEY. I just wanted to bring to your attention, in light of your recitation of history, that the first Form 1040 in 1913 contained a deduction for State, county, school, and municipal taxes.

Please proceed.

Mr. MINARIK. I think the fine print on that, Mr. Chairman and Congressman Stark, has to do with the fact that State income taxes were a relatively recent invention. If my memory serves me correctly—and I don't think memory is exactly the right word—but I believe that Wisconsin was the first State to have a State income tax and it's probably the only one that predates the Federal income tax.

Representative OBEY. Two.

Mr. MINARIK. OK. And many State income taxes only came into being after the Federal income tax and I would suspect that the fine print of the law did not include the specific item of an income tax as being deductible against the Federal income tax.

Representative STARK. That was the change in the 1940's and Congress Obey is right.

Mr. MINARIK. So I think that one might make the argument that that change was perhaps a recognition not only of the reality of cascading tax rates, but also of bringing the code up to date with the State and local menu of taxes that were used.

I think you are correct, Congressman Stark, in saying that there is an important issue of whether the tax on the tax argument has any merit, and it is certainly true that once tax rates go below a certain point that the cascading issue becomes a lot less important.

I think it's probably true that States are less likely to allow a deduction for the Federal income tax simply because their marginal rates are low enough that that deduction will not have an awful lot of effect.

I think when you get to the question of overall progressivity of the tax system, we have to take into account that the overall progressivity really is the result of a lot of aspects of the tax law.

One thing we could do if we wanted to make the tax system more progressive would be to eliminate all itemized deductions which have the upsidedown subsidy aspect.

Another thing we could do would be to convert those itemized deductions to credits so they would have the same value for all taxpayers.

And I might suggest that if we feel that we have to leave some itemized deductions in the code, for whatever reason, that's one way to go in reforming the tax system to avoid the regressive aspects of the itemized deductions that we have now.

As I pointed out in my statement, that's one aspect of the Bradley-Gephardt plan that I think might merit some examination under these circumstances.

But I think you have to take into account that whether the overall progressivity of the system is desirable or not is not merely a function of the itemized deductions that we allow. If we think that the system is not sufficiently progressive as the President proposes it, we have many alternatives. One of them is to eliminate the itemized deductions, but the other is simply to change the rate structure or perhaps to put in greater low income relief. And one thing that I think the Congress should consider with the President's plan is a larger zero-bracket amount than the President proposes and that provides more low income relief and aids people who don't itemize.

Representative STARK. Rather than the credit?

Mr. MINARIK. That's another alternative. So there are all these aspects that go into the overall progressivity, and I think if one is to attempt to kill off deductibility of State and local taxes that one should consider not only repeal of those taxes as an option but other options that deal with the progressivity issue. There may be other solutions to overall progressivity that work better than eliminating the State and local deductions.

Representative STARK. No quarrel with that, but, unfortunately, that's the only item on the table today, but unfortunately you are following the same pattern that the oil companies are following and the life insurance companies—everybody wants out. And if we allow that, just from the standpoint of the procedural way to get to reform, we will have no reform because your statement again is you still have to answer to the guy next door who says, "Why my taxes when the oil companies are home free?" No quarrel there.

But if we assume that this were the only item that was left under Treasury I, we might think differently.

Mr. MINARIK. OK. I guess I would just refer again to the last page of the statement where I try to point out that there are trade-offs here, and if we're going to give ground on State and local tax deductions we have to be tougher elsewhere. And I don't want to be disingenuous about that at all.

Representative STARK. Thank you very much. Thank you, Mr. Chairman.

Representative OBEY. At the risk of getting into a debate with my colleague, I would simply again like to suggest, as I did earlier

in my opening statement, that I think there is a whale of a difference between an oil company coming to the Congress and asking for a continuation of a special favor for a stockholder and a State government asking that their ability to continue to provide services to people who are voters rather than stockholders with a special financial interest, so that that State can continue to provide services to the population of that State. In many cases the States in question have no ability to tax oil, have no ability to tax gas, have no ability to tax coal, have no ability to export the cost of providing those public services to other taxpayers who are not taxpayers within the State in question. That is a major, major difference between the review of this item and the review of the more narrowly based items which provide more narrowly based benefits.

One other question. In your judgment, what would be the impact of eliminating the State income tax but continuing to provide the deductibility of the local property taxes? What impact do you see on that?

Mr. RAIMONDO. Mr. Chairman, I would think that's exactly the wrong direction to move in. If you were to eliminate the deduction for State and local income taxes, but keep the deduction for property taxes, I think you are setting up a situation—I'm not sure what the magnitude of it would be—but you are setting up a situation where State and local governments would have to turn potentially more and more to property taxes.

I don't know if they really would, but at least you're boxing them in so that their alternative for revenues is to look to regressive taxes, one of these being the regressive property tax.

One of the features that I think is attractive about the deduction is that it sets up an opportunity to encourage States to reform their taxes so that they become more progressive. Here you would be doing exactly the opposite and setting up an incentive for them to turn to regressive property taxes.

Now let's take it one more step. Given the property tax revolt and people's opposition and hostility to property taxes, it's not immediately clear to me that State and local governments would have much option in turning to the property tax. Of course, if they did, all of the comments that my colleagues have mentioned with respect to property values and home sale prices would take effect. Also, there would be an intensified interstate business competition.

But I think the other alternative that has to be explored is that if the alternative is to turn to the property tax, but local governments or State governments have already imposed limitations on how much property taxes or how fast property tax liabilities can grow, then you're cutting off yet another revenue source to State and local governments, particularly local governments, particularly in the area of education, and it raises the specter that over the long haul, service provision will be damaged.

Again, I bring back a point that I introduced in my statement. As the testimony and comments have unfolded here, again and again you have heard in comments from the witnesses and implied in your questions that there is a "get-you-later" approach to this policy. We are going to see some very adverse effects down the road. One of them may be that if you eliminate the deduction for the State income tax, but not for the property tax, States will view

the property tax as a way to go. But the property limit laws in most States will cut off the use of the property tax. Down the road we're going to see a slowdown, if not a complete deterioration, in service provisions in many local governments, particularly school districts which rely so heavily on the property tax.

Representative STARK. If the chairman would yield, as near as I can calculate, it's in round figures, \$24 billion of the loss would come out of the State and local taxes other than owner-occupied homes. I presume that includes sales tax. And the property tax is about \$10.7 billion. So roughly—and I can't break out the sales tax right here yet. So basically you would get only about a third of the savings if you left the property tax in.

Mr. OAKLAND. May I comment on this?

Representative OBEY. Sure.

Mr. OAKLAND. I think it's dangerous thing—this "get-you-later"—if you would allow some taxes to be deductible and others not. Now we do disallow certain taxes currently, like gasoline taxes and tobacco taxes, but those are relatively modest and the gasoline tax is a benefit tax.

As I pointed out in my statement, if you disallow a personal tax deduction, you're going to move toward business taxes, and if you have only one form of general tax deduction—say property tax—you're going to tilt the system in that direction as well as toward business taxes.

Finally, let me say that I think the disparity among States may be greater if you start singling out individual taxes. Some States have no sales taxes, for example, and its proposed to eliminate deductibility of sales tax. I think that would provide a very nonuniform set of taxes around the country.

So I would hesitate to single out particular taxes for deductions. Either we should have none of them or we should have all of them.

Representative OBEY. Mr. Minarik, you referred to Bradley-Gephardt and the way it handled this problem. Correct me if I'm wrong. My understanding is that the way that proposal handles this problem and picks up enough additional revenue is because it allows the deductibility of for instance, State income taxes, but only at the bottom rate level.

If you were to follow that track rather than the President's track, you would be talking about having to make up essentially—it is \$12 billion from other sources?

Mr. MINARIK. That would be probably a reasonable rough estimate, Mr. Chairman. I can't tell you precisely how much revenue that particular provision would provide, but you would regain a substantial fraction of the revenue lost that the Treasury would face, which is of the total of \$35 billion. I would imagine that you would be talking about something in the neighborhood of \$10 to \$15 billion of that \$35 billion that you would still need to make up.

Representative OBEY. OK. Again, you have all referred to this in your statements but I'd like to have in the record your responses to this particular question.

The argument is often made that one reason for eliminating this deductibility of this item is that after all you simply have high income areas rewarding themselves with high levels of services and so, therefore, you encourage efficiency and you encourage resist-

ance to nonessential spending if you eliminate this deduction. I know that's the argument that the Senator from my own State makes, who is on the Kemp-Kasten bill.

I would like you now to lay out again for the committee what are some of the factors that go into determining levels of taxation in addition to a desire to have a "high" level of services? What are some of the other factors involved that require one locality versus another one and one State versus another State to have a higher tax rate?

Mr. RAIMONDO. Mr. Chairman, it would be very neat if we looked at these numbers across the country and those dollar amounts actually reflected differentials in public services. So we could easily say that Louisiana has roughly a third or 40 percent of the services available in California. Unfortunately, the dollar differentials do not tell the story of what the service levels are.

We may well discover that services in one State as compared to another State are affected by the cost of these services, the clustering or the demography of the people in those areas, what the service levels are in those areas, the income capacity of the State to pay for taxes, even the industrial mix within a State can have a big impact on its per capita spending levels. I come from a State which is trying to spend more and more money on environmental protection on its toxic waste cleanup. That's going to reflect itself in higher per capita spending.

Whether it's the demographic makeup of the people, the cost of the services that are provided, the different services that are provided, or the industrial mix that we find across the country, and last, the income capacity that we find across the country, that's what's buried in those numbers. Those numbers do not just show service quality. Some part of that number may be service quality, but another chunk of it is service cost.

It's very difficult to point to that map and look at the high tax States and say that here we have—to use a phrase—gold-plated services. Perhaps some of them are. We are discovering in reviews of the Federal, State, and local budgets that there are gold-plated services in every part of the budget. So I'm sure there may be some in domestic spending, as well as in military spending, but it's very difficult to know what those numbers represent. What I'm saying is it's not enough to just look at those differentials, look at the deductions, and say let's eliminate the deduction because then we can penalize the high tax States. It's a much more complicated problem than that and we have to look at the various elements that I have mentioned to know exactly what those numbers represent.

Again, I would just mention an issue which we have all made at one point or another. Within the State and local systems there's a whole lot of redistribution going on. Even if you want to take those numbers at face value, we have a situation where high tax people are paying for services that low income people enjoy. That's one of the benefits of the deduction. The Federal Government is stepping in and encouraging States to do that kind of tax and expenditure policy. Its elimination has the Federal Government turning its back on this State-level redistribution.

Representative OBEY. Congressman Stark.

Representative STARK. Mr. Chairman, I'd like to compliment you on having these hearings. I think this has taken some of the heat off the Ways and Means Committee. It's a major issue for six or seven high income tax States and I don't know whether the committee would rather have us take away the deductibility of homeowners' mortgages, which is probably more fair per capita, but we then get into the political considerations. Whether this will survive or not, I'm not sure. I share the panel's feeling that there are a lot worse and egregious loopholes that ought to be dealt with first. I hope we could do that and then perhaps we could get to what I think you asked, Mr. Minarik, is that if we could push the deductibility down against the lowest bracket only we would be more progressive and eliminate some of the regressive or elitist or whatever kinds of perjorative phrases I can think of for doing this, and that's very much a possibility I suspect in our deliberations, if I interpret what the chairman of the Ways and Means Committee indicated. What will be the effect on the Senate side is beyond my capacity to predict, but I thank you for holding these hearings. They have been most informative.

Representative OBEY. Thank you.

Mr. OAKLAND. Could I just make an appeal, if you use a minimum bracket rate consider as an alternative putting a floor on the credit on the deduction; I think that would be a good deal fairer.

Representative OBEY. I'm sorry, I didn't understand.

Mr. OAKLAND. Putting a floor on the deduction rather than using the low bracket rate.

Representative OBEY. Thank you. I'd just like to make just a short comment in closing.

I don't think that this is just a problem which affects a small number of States. If you take a look at the list of States that are affected significantly by this plan and negatively, you see Connecticut, Delaware, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, Rhode Island, Vermont, Wisconsin, and California to some degree. You have a lot of votes there very quickly in the House and I'm certainly sensitive to the need not to try to reward high income taxpayers. I think my record bears that out. But the fact is that I think the panel has made very clear today that we are not talking about an issue here which simply affects the convenience of high income taxpayers. We are talking about the ability of the Federal system to continue to experiment, the ability of the States within the Federal system to try to go their own way in supporting the values that each of those States has societally and culturally. You're talking about the ability of States which do not have the tax base that States with oil, gas, coal, and so forth, have, to continue to provide quality level services not just to high income people but to very low income people as well as the middle class.

And I cannot help but believe that one of the reasons—at least in the minds of some—for pushing this deduction totally out the door is the desire that some people have in this government to continue to pursue the goal of removing the ability of government to ameliorate social consequences or to affect social consequences and ameliorate social differences in this country. I cannot help but believe that at least one of the goals certainly as exemplified by the state-

ments of one of the authors of one of the plans under consideration is to create very heavy incentives for States to follow a single pattern, a pattern which would reduce their ability to provide education and welfare assistance to the population groups who really need it and to continue the process of getting the government out of using the income of well-off people in this society to improve the economic and social opportunities for people who are not as well off.

And while that may be an old-fashioned goal, I consider it to be a very valid goal, especially at the State level, and I think there's more than simply a tax plan in mind when you see something like this. I think it is an effort at social reengineering in a direction that I don't believe is healthy for the country.

But I thank you all for coming and I appreciate your time.

[Whereupon, at 11:35 a.m., the committee recessed, to reconvene at 10 a.m., Thursday, May 30, 1985.]

THE EFFECT OF THE PRESIDENT'S TAX PLAN ON STATE AND LOCAL TAXPAYERS

THURSDAY, MAY 30, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to recess, at 10:05 a.m., in room 2255, Rayburn House Office Building, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representatives Obey and Scheuer.

Also present: Scott Lilly, executive director; and William R. Buechner and Carl Van Horn, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. This morning we will have the second day of hearings on the question of the elimination of the deductibility of State and local taxes on tax returns, which was recommended by the President in his speech to the country 1 day ago.

As the hearings yesterday indicated, the consequences of this change in tax policy go far beyond those argued by the proponents of such a change.

In my own personal judgment, they reflect far more than simply a tax change. I think they reflect the basic administration ideological goal to substantially weaken the ability of government to do much of anything in this society, and this is simply chapter 2, which is aimed at the ability of State and local units of government to provide services, as opposed to chapter 1, which was aimed at reducing that ability at the Federal level.

As the hearings indicated yesterday, these consequences include a reduction in resources available for American education and cutbacks in a variety of other State and local services. They also include an increased disparity between States and their ability to attract industry, a disparity which will benefit States and localities which are able to transfer tax burdens through methods such as severance taxes or isolate themselves from a variety of responsibilities which most taxpayers have to bear.

One issue which arose during the hearing yesterday which I would like to address for the record before I ask the witness to proceed this morning is the question of the genesis of the State and local deduction.

It was suggested yesterday that the deduction was added to the Revenue Code in the 1940's to offset increases in Federal tax rates adopted at that time.

As I pointed out then, that is not correct. The deduction was not added in the 1940's, but it was included in the original 1913 law and was one of the few items on the first IRS tax form used in 1913.

Further research by the staff of this committee indicates that the deduction predates even the 1913 law. In 1861, an income tax was adopted to fund the Civil War. State income taxes were exempted from double taxation in that law, as well. This deduction has historically been a matter of tax equity and an important principle in Federal-State relations.

This morning we will explore a second possible consequence of the elimination of this deduction, the impact which it will have on the bond market and the ability of States and communities to go into that market.

Before we get to the witness on that subject, I want to make one additional point. Treasury Secretary Baker yesterday in several interviews suggested that the elimination of this deductibility was simply the elimination of a subsidy which 35 States which don't need it provide to the taxpayers in the 15 States who have been getting good use out of it.

I want to point out that the Secretary simply has his facts wrong and his numbers wrong.

When you take Federal spending, when you take Federal taxes collected on a State-by-State basis, corrected for the deficit, the results show the following:

My own State provided the Federal Government with \$2.3 billion more in taxes than they received back. Illinois lost \$9.3 billion. Minnesota lost \$1.7 billion. Michigan lost \$5.3 billion. Connecticut \$700 million. New Jersey \$8.8 billion, and New York \$4 billion.

These are not States who have been subsidized by other States. These are States who have been providing a much greater share of the national tax burden than they would like to provide, very frankly. These are States who, if anything, have been subsidizing other areas of the country, and I think that that fact ought to be clear.

I would like to make one other point. In light of the fact that the Secretary and other administration proponents yesterday also had been indicating that this deduction goes only for—or is of primary benefit, I should say, to high income taxpayers, the New York Times, in a very clear editorial, I think, pointed out just the opposite. They pointed out that while at first blush, this benefit might appear to accrue only to those who are high-income taxpayers, I would point out one additional fact which was made clear by the hearing yesterday. It is middle-income taxpayers and high-income taxpayers who are saddled with the essential burden in a civilized society of providing services that are needed for the education, transportation, and welfare of the poor. Nowhere do they do that more than in some of the States who are most threatened by the elimination of this deduction. And the only break that those middle- and high-income taxpayers get, who carry that very large burden of supporting the poor in our society, is the recognition of that fact by their ability to deduct from the Federal taxes what they pay in State and local taxes.

So this would be, at first glance, an attack on middle-income and high-income taxpayers, who at least would appear to benefit more, but the real people who would be under the gun by the elimination of this deduction would be the people who rely on the generosity of the middle class in order to support needs which they cannot afford to meet on their own.

I think it's essential in the interests of social stability to recognize that fact.

Having said that and gotten that off my mind, I would now like to ask our witness to proceed.

Our witness is Freda Stern Ackerman, executive vice president and director of the Municipal Department of Moody's Investors Service, who will describe what her view is, in terms of the impact of this recommendation on the financial creditworthiness of State and local governments.

Ms. Ackerman, would you please proceed.

**STATEMENT OF FREDA STERN ACKERMAN, EXECUTIVE VICE
PRESIDENT AND DIRECTOR, MUNICIPAL DEPARTMENT,
MOODY'S INVESTORS SERVICE, NEW YORK, NY**

Ms. ACKERMAN. Thank you, Mr. Chairman. As is the case whenever we are asked to comment broadly on implications to credit ratings of a new piece of proposed legislation, whether Federal, State, or local, we begin by reiterating that although credit ratings are assigned using a basic, industrywide, time-proven methodology, each rating is unique and the individual characteristics of the particular issue being analyzed are of paramount importance in the rating process. That being said, we can nevertheless comment on some of the possible effects that the administration's tax plan may have on municipal credit ratings.

My remarks today will cover the general thrust of the tax plan concerning municipal credits and what some of the possible implications to State and local governments may be.

The context in which the tax plan is being proposed is well known to all of us. There is a huge Federal deficit, unprecedented in size. The administration is seeking ways to reduce that deficit without contemplating any new or direct sources of Federal taxation. By stressing the sound financial condition of State and local government and citing large surplus accumulations by these units, the tax plan can be said to be an attempt to shift a portion of the Federal Government's deficit onto State and local governments.

The other major component of the tax plan has to do with the issue of where the ability of State and local governments to issue tax-exempt securities derives. Is it a gift of the Federal Government which can be taken away at its discretion, or is it rooted in the doctrine of reciprocal immunity and embedded in the U.S. Constitution?

My remarks today will focus on the first component, those portions of the tax plan relating to the financial condition of State and local governments.

There are three major components of the tax plan, three "assaults," if you will, that most severely affect State and local units. They are a general or direct assault on the overall attractiveness of

municipal bonds, with the proposed reduction of maximum individual tax rates to 35 percent; a repeated assault on State and local governments, with the proposed elimination of tax exemption for certain types of municipal bonds, depending on purpose and use of proceeds; and a direct assault on the financial condition of State and municipal units with the proposed elimination of deductibility of State and local income taxes from Federal tax returns which has direct implications to credit standing.

The general assault of the proposed reduction in tax rates is most open to debate as to its effects on the future attractiveness of municipal bonds to investors, when considered together with those portions of the tax plan to eliminate what have been characterized as "loopholes." On its face, looked at in isolation, a reduction of the maximum individual tax rate to 35 percent will, needless to say, substantially reduce attractiveness of municipal bonds.

This is of particular concern, as the vast majority of end buyers of tax exempt bonds in the last 2 to 4 years have been middle-income individuals. However, arguments have been made that if simultaneously with the reduction in tax rates, other types of tax-sheltered investments are eliminated, those municipal bonds remaining in the high market as tax exempt, will have less competition and will attract a solid following of investors.

Few people argue that a reduction in the size of the Federal deficit will be better for State and local units and will probably create more stability in the credit markets. However, the uncertainty as to what final adopted legislation will include, leads at this time to real concerns as to the future ability of State and local governments to obtain sufficient capital funds at affordable interest rates.

The repeated assault on the eligibility of certain bonds as tax exempt is a battle which has been fought many times before. The cutoffs of certain types of municipal bonds, namely, industrial development revenue bonds, pollution control revenue bonds, incorporated within these two, certain types of revenue bonds issued for what the administration considers "private purposes," such as airports, hospitals, housing, universities, and others, would, if adopted into law as now proposed, have two immediate effects. One would be to raise the cost of borrowing for State and local units of government and the other would be to put enormous pressure on general obligation debt ceilings and pressure on those revenues, namely, property taxes, which normally provide support for general obligation bonds. Whether pressure to provide investors with higher interest rates on a limited amount of future bonds either tax exempt or taxable, issues for municipal purposes, would continue for any long period of time is uncertain. It's possible that rates would eventually stabilize; but at what final level and at which point in the future, are two questions which remain unanswered.

There are enormous demands for capital funds at the State and local level. The conditions of the infrastructure nationwide is weak. These demands cannot be funded out of current revenues. They require a broad array of various types of debt instruments, now proposed to be eliminated. Most units of government are very interest-rate sensitive and their ability to play the market is not nearly as great as that of private corporations. Despite the advent of all sorts of new financing techniques, such as variable rate demand obliga-

tions, which are much more market and interest-rate sensitive than straight serial maturities or term bonds, the budgeting process of State and local governments are such that flexibility as to rate levels and timing of obtaining capital funds are limited.

Most States have interest-rate ceilings and most projects undertaken have specified timeframes. Even though bond buyers are becoming more sophisticated, as are government finance directors, nontraditional types of debt structures raise their own questions as to implications to basic credit quality. Variable rate demand obligations are attractive at the time of initial issuance, but the credit analyst must determine the interest rate exposure of the issuer over the life of the issue, which may look far less attractive, if overall interest rate levels rise from what they were at the time of sale.

With the proposal for fewer types of bonds being issued as tax exempt, cause issuers will obviously have to compete more directly, with the taxable market to attract investors to buy those bonds, no longer tax exempt. That, of course, means higher yields. However, many projects now financed by State and local governments may become economically unfeasible at higher interest costs. This may mean a reduction in the scope of governmental services and real financial pressures to raise revenues either to fund more projects directly out of current revenues or to raise revenues to support higher yields on municipal bonds.

In any case, the restrictions on the types of debt considered as tax exempt or public purpose by Treasury will have negative financial implications, at least in the short run.

As we have witnessed many times in the past, the debate and proposals over what types of bonds can be issued as tax exempt cause severe disruptions in the municipal market, and where restrictions are, in fact, adopted, they usually prove, over the longer term, to be ineffective. That is, when cutoffs have been legislated in the past, we experience a surge in volume just before a deadline, and then see subsequent issuances of debt in a slightly different form in the future, which circumvent the intent of legislation.

The net result is usually not that different from what things were like before the limits were imposed, but only after issuers have had to pay a price in real dollars.

The direct and most serious assault on the fiscal and economic integrity of State and local governments comes in the form of the third part of the tax plan. The deductibility issue for State and local taxes could have far-ranging effects on State and local units.

And I just wanted to also add that I have just come back from the Government Finance Officers Association's annual conference, this year in Chicago, and the deductibility issue was really a focus of the majority, I think, of the local finance officers that were in attendance at the conference, the GFOA, itself, coming out against the elimination of deductibility and a lot of finance officers that stopped by to talk to us, including the treasurer of the city of Milwaukee, the treasurer of the State of Michigan, really cited the elimination of deductibility as one of the most serious concerns that they had.

The adoption of this provision of the tax plan probably holds the most serious consequences for State and local credits, especially those with currently high tax burdens. A direct result could be

even higher tax burdens in a lot of States which has negative implications to future economic growth as well as to future funding of social service programs.

Without sounding too alarmist, taxpayers nationally have demonstrated in recent years their sensitivity to increasing tax burdens and these so-called tax revolts could increase in frequency as a direct result of the elimination of deductibility of State and local taxes. There will be a perceived, and in some cases a real, increase in the cost of funding local services caused by the elimination of deductibility. Although, Federal tax burdens are proposed to be lowered, certain State and local burdens will increase as a result of this tax plan. Although not strictly comparable in its provisions, it might be useful to review briefly proposition 13 adopted in July in 1978 in California to gain some perspective on the implications of the current tax plan.

The environment in which proposition 13 was adopted into law was one in which the State of California had accumulated a very large surplus. This is comparable to the current assertion that State and local governments nationally have accumulated large surpluses themselves.

One direct result of proposition 13 was the virtual elimination of general obligation debt issuance in the State. This has resulted in far less traditional types of debt issuance in California and has put pressure on local governments in the State to maintain their existing infrastructure.

Although numerous alternative means of obtaining capital funds have been used, particularly certificates of participation and short-term borrowing, both of these alternative means have had credit implications to ratings. Certificates are not viewed as strongly secured as general obligation bonds and basic governmental activities, particularly for urban areas, like street and road maintenance, are not well accomplished by the use of certificates. Increased use of short-term debt can have credit implications if debt structure becomes unbalanced. The reduction in property tax rates and local revenue raising abilities can be seen as parallel to the other two portions of the administration's tax plan.

What we've seen in California since proposition 13 is an expanded role of the State government in most local units, particularly school districts. This has created more pressure on the State's budget, has led a lot of local units to increase user fees and to cut back the scope of services previously financed from property taxes. It has also led to increased short-term borrowing in amounts greater than before and at earlier times in the fiscal year than before in order for local units to maximize arbitrage earnings from unspent note proceeds, not a very reliable or predictable revenue source.

Limits on types of municipal bonds and taxing and revenue-raising abilities have been around for many years. The usual effects of these kinds of measures are twofold: They act as an incentive to State and local governments to find ways to circumvent those limits, most of which usually result in weaker security arrangements, and they usually have the effect of diminishing financial flexibility, which can easily lead to deficit conditions.

The tax plan's intent, in addition to shifting a portion of the Federal deficit to the State and local level, also proposes to alter dra-

matically intergovernmental fiscal relationships and appears to have the implication of severely reducing whatever surplus accumulations there are or of creating deficits at the State and local level. These implications are even more severe when considered together with other Federal Government proposals which include the phaseout of Federal revenue sharing and the phaseout of Federal operating subsidies for mass transit.

Additionally, many State and local units already have debt limits of varying kinds. As credit analysts, debt limits can often be considered as a negative rather than as a positive factor because all too often they act as an incentive to units of government to find ways to circumvent those limits leading to a poor debt structure. Issuers have enormous demands for capital funds and if traditional means of raising those funds are curtailed, ways will probably be found to access the market but at a real cost to the issuer. Where debt limits have existed in the past, the most usual way around them has been to create nondebt debt; that is, some form of contingent liability which is legally not considered direct debt of the issuer.

Because these types of bonds, like lease rental bonds and certificates of participation, may not generally be as well secured as straight general obligation or revenue bonds, they usually result in lower credit ratings and cost the issuer more. Credit quality is also likely to be negatively affected if governments must directly finance a majority of those projects previously financed by revenue bonds.

The deductibility provision of the tax plan may have a direct effect of reducing surpluses at the State and local level although Treasury has been citing statistics of large surplus accumulations for State and municipal governments, we really have not seen the same level of financial strength in those issues we rate and we rate about 90 percent or so of all issues which come into the municipal market.

A number of units are coming out of the throes of the national recession and appear to be beginning to benefit from the recovery. But many are still depressed economically and many no longer enjoy previous levels of economic stability. For example, many credits with economies based in part on oil and gas-related revenues are experiencing financial strains once unimagined.

This portion of the tax plan puts the Federal Government in the position of forcing State and local units to make a tradeoff between surplus and taxes. If State and local units are faced with the elimination of the present deductibility some entities may face pressures to reduce their own taxing levels which could lead to reduced revenues and may result in the reduction of surpluses for those units that have them. This may have a negative effect on credit ratings.

State and local governments are innovative and resilient as I said at the beginning of my remarks. Credit ratings are assigned on a case-by-case analysis. Numerous units of government with restricted revenues and narrow economies can achieve favorable ratings if management strives to operate within its resources. Although this can sometimes be a painful process for taxpayers, when the resolve to maintain stability in the face of adversity can be demonstrated, credit ratings need not suffer. However, when

limits are imposed from above rather than from within, the ability to manage well becomes a most difficult task.

An analysis of rating changes in 1984 made at Moody's reveals that lowerings far outnumbered rating increases. In 1984, 212 ratings were downgraded exclusive of ancillary and dependent ratings while only 84 ratings were upgraded. These numbers are comparable to the number of rating changes made in 1983 both downgradings and upgradings. These actions speak to the fact that the size of a surplus for any one unit of government is not necessarily the most important factor in a credit rating. Many other factors are equally of importance. Some of these may now be jeopardized.

As now proposed, we feel the tax plan may have serious implications to credit ratings. Consequently, we will be carefully monitoring congressional actions concerning the tax plan and will be, as the year progresses, reviewing those ratings which in our opinion will be most affected. Thank you.

Representative OBEY. Thank you very much. I'd just like to walk you through a series of questions which might seem elementary but I'm trying to lead to a point. Can you tell the committee what are the most common activities or projects funded by public purpose bond?

Ms. ACKERMAN. Really, just about any purpose that anyone could think of. Highways, streets, higher education, primary and secondary education, airports, water and sewer service, electric power generation. The complete array of what most taxpayers expect a local unit of government to provide.

Representative OBEY. And why should the average taxpayer care whether or not credit ratings of the State or locality decline?

Ms. ACKERMAN. Well, although there is not an absolute correlation between the level of credit rating and the interest rate which the municipality may have to pay in order to borrow money, there certainly is an indirect correlation. Yields do vary by rating category and the amount of interest cost for a particular capital financing directly affects the taxpayer and the level of taxes that he or she has to pay.

Representative OBEY. I understand from your statement that States and cities in all parts of the country might find it more difficult, more costly, to raise money to complete the kinds of projects you just were listing for us if this proposal is accepted by the Congress; is that correct?

Ms. ACKERMAN. Yes.

Representative OBEY. Is it likely to be the States and cities with the highest current tax burden who would be the most negatively affected by that change?

Ms. ACKERMAN. Yes, I'd agree with that.

Representative OBEY. You have spoken of the need, the enormous need, for investing in public purposes such as infrastructure. This committee 1½ years ago commissioned a study on that very subject. Isn't it also true that the States and cities with the greatest needs for this kind of investments by and large, are going to be the ones who will have to pay higher costs for the capital investments?

Ms. ACKERMAN. In all likelihood, yes, I would agree with that. Because I think if you look at infrastructure needs it really again

is broad-based across the country. Obviously, those areas that are growing rapidly like the South and the Southwest have the needs to build the new facilities to serve their growing population but I think in order to retain their competitiveness economically, the older urbanized Northern and North-Central States need an equal amount if not, in fact, larger amounts of capital funds in order to repair and maintain existing infrastructure.

Representative OBEY. Is it possible to estimate here, or if you can't, can you provide us with how much we might anticipate the cost of capital for public purpose investment to increase, say, in the next 5 years if this proposal were to be adopted?

Ms. ACKERMAN. That would be something I would be happy to provide for you. I don't really have those statistics on hand right now.

Representative OBEY. Is it also likely, as you imply, that some of these States and communities which face the greatest need for public investment would not be able to afford to raise the additional capital that they would need to meet those needs?

Ms. ACKERMAN. I think that's a real likely scenario because they'd be facing more competition, tighter competition than the marketplace, and if there is a simultaneous elimination of deductibility as well as a real curtailment of the types of bonds that can be issued as tax exempt. One alternative, I suppose, although not a very viable one for some high tax States would be the issuance of taxable debt which obviously would be far more expensive than the issuance of tax exempt debt.

Representative OBEY. I can't help but observe—I notice in your statement a reference to the innovative nature of State and local governments finding other instruments to use in order to finance debt.

I can't help but recall that when I was in the Wisconsin Legislature, at that time we had a constitutional prohibition on State debt. And during the 6 years and 3 months that I served in the legislature, the State's debt doubled because they simply set up in those days what were known as dummy building corporations in order to get around the State limitations. And at that time I remember then State Senator Gaylord Nelson running for the governorship arguing that he was going to improve the creditworthiness of the State by eliminating the prohibition on State debt, so that you could incur directly the full faith and credit of the State behind it in order to improve the creditworthiness of the State which people find hard to follow, but they followed it closely enough to elect him.

Let me pass the witness to Congressman Scheuer.

Representative SCHEUER. I wish you would pass the witness to Congressman Scheuer. I enjoyed your statement, Ms. Ackerman.

Ms. ACKERMAN. Thank you.

Representative SCHEUER. I don't have very many questions about it. Don't you feel it a little ironic that an administration that is devoted to chucking as much responsibility off of the Federal Government and onto States and localities should be trying to penalize those very States and localities that historically have been doing the most and spending the most and taxing the most to provide for their own needs.

New York, Illinois, Wisconsin, California, Hawaii, and Pennsylvania, do you have any explanation for that? That's not a really, purely economic question.

Ms. ACKERMAN. I agree with your perception, with your characterization. It seems if the administration does have the goal of reducing Federal involvement in State and local affairs and finances, that there should be a multitude of options available at the State and local level to take on this increased burden rather than restrictions and curtailments in the options available at the State and local level which comes out of this particular tax proposal.

Representative SCHEUER. They should be rewarding and encouraging the various States that are showing the most sense of responsibility. Instead, they're penalizing the States that have tried to do it themselves and have had the fiscal integrity and the concern for the well-being of their own people to be willing to make extra expenditures for infrastructure for education, for health services, and to tax their people for it. Doesn't that seem somewhat bizarre to you?

Ms. ACKERMAN. Well, we weren't consulted in the process of Treasury's putting together these proposals but, yes, obviously, we're very concerned about the implications.

Representative SCHEUER. As a matter of equity, who is being hurt? According to IRS figures, over 50 percent of the people who deduct State and local taxes earn less than \$30,000, \$30,000 or less, and according to the IRS, 87 percent of people who deduct their State and local taxes, 87 percent of them have incomes of less than \$50,000. So the vast bulk of these people—well, over half of them make less than \$30,000 and the overwhelming proportion of them make less than \$50,000. Doesn't this indicate to you that this hits hardest at the middle class, the very middle class, that seems to be penalized the most in the overall conception of the administration tax plan?

Ms. ACKERMAN. Certainly from the figures you cite but I'd really have to defer to someone with more expertise in that area since our focus is really State and local governments rather than the other side of the picture, the individual taxpayer.

Representative SCHEUER. You are saying, though, as I gather it, that just as these half dozen States that I mentioned, the ones that have been trying to make a go of it themselves, taxing their own citizens to provide for their own needs, they are the ones who are going to be hurt most by this provision, and they are the ones who are going to be crippled in their efforts to financial independence on a State level.

Ms. ACKERMAN. Yes, it would appear that way.

Representative SCHEUER. Thank you very much, Mr. Chairman. I appreciate your testimony very much, Ms. Ackerman.

Representative OBEY. Let me ask you about education. You indicated that that was one of the principal areas which required States and cities to go into the bond market.

We had a lot of discussion recently about the need, for instance, for large expenditures to modernize laboratories and research facilities at institutions of higher education. In fact, the House passed a bill this last year trying to provide incentives for the higher education community to do just that, to reequip their scien-

tific laboratories around the country, if any of them are left that aren't devoted to star wars research.

As I understand your testimony, it is likely that the cost of funding higher education projects would increase for State taxpayers, especially in some higher tax States which have traditionally supported strong public higher education systems. Would that be a fair statement?

Ms. ACKERMAN. Yes.

Representative OBEY. It is likely then that some of those States would simply either not be willing or able politically to make investments in those new laboratories, in dormitories, in research facilities in institutions of higher education because of reduced credit ratings and higher costs?

Ms. ACKERMAN. I would answer "yes" to that, primarily going by past experience. We in fact have seen that occur over the last 5 or 6 years in a number of States.

Representative OBEY. Can you give us examples?

Ms. ACKERMAN. Including, to the best of my recollection—three that come to mind are Wisconsin, Minnesota, and Michigan, each of which, when they were facing financial strain at the State level themselves, either cut back in the overall level of State moneys to higher education, and one or two of them also simultaneously delayed payments to both higher as well as primary and secondary education districts.

So, yes, we have seen that happen before, and I think it would be likely to be repeated.

Representative OBEY. Let me try to get specific to try to quantify what it is that we are talking about, and let's take a hypothetical situation.

Suppose there was a community with a AAA bond rating in a high tax State that decided it had to build or rebuild a major bridge. I just had that experience in my district. It cost us \$20 million.

Let's say the city decides to go ahead and go to the bond market to raise funds for a project that will cost, say, \$10 million. If we have reductions in that city's bond rating from AAA to AA, is that going to increase the cost of raising money for that bridge, and if it would, is there any way of estimating by what amount it would raise that cost?

Ms. ACKERMAN. I think it would definitely raise the cost of borrowing.

I have with me a booklet that we publish on yields by rating category for the last 25 years. Looking at last year's experience, 1984, which was a pretty moderate interest rate environment, between AAA- and AA-rated bonds we had about a 35 basis point spread. It cost AA-rated credits about 35 basis points more than AAA-rated credits to issue debt.

I think probably, since in the overall scheme of our ratings we have less than 1 percent of our ratings at the AAA, the highest level, perhaps an even better scenario would be a unit of government currently rated AA whose rating would fall to the A level, and in 1984 we had a spread in interest cost of almost 50 basic points between those two rating levels.

So I think, yes, it certainly would be more expensive.

Ms. NORWOOD. The 130,000 increase may be something of an exaggeration, but I think there was, nevertheless, considerable growth in retail trade compared to what is usual in January.

Representative OBEY. So you wouldn't agree with the statement that, "Retail sales change posted disappointing results for January"?

Ms. NORWOOD. Well, you know, I'm not quite sure what "disappointing" is. I'm sure that some of the employers may feel that way.

Representative OBEY. They may have expected a really bonanza year and they just got a good one and that wasn't enough for them.

Now, until recently labor force growth during this recovery period has been relatively slow. Between December and January the labor force grew by over 400,000 following an increase almost that large the month before. At previous hearings you attributed the slower labor force growth to demographic factors, fewer teenagers in the population, tapering off women's labor force participation rates, and so forth.

Does your report today which shows the female labor participation rate rising to 54.4 percent, indicate a change in this trend and should we expect additional labor force increases from discouraged workers as well as women in the months ahead?

Ms. NORWOOD. I believe that women are beginning to resume their increase in labor force participation. However, the number of teenagers in the labor force declined over the recovery period by some 5 percent. So I think that's something that is very different from before.

As I said earlier, it is a little too soon to focus on this big surge in labor force participation of adult women. That's a very high rate, 54.4 percent, and my view is that there will be continued strength in labor force growth of women but I would not be at all surprised if next month there were a little slowdown in the labor force growth. Our labor force figures tend to move with surges and then a few months of being level or even going negative and then coming back again.

So I think there is an increase in labor force participation of women and, in fact, one of the things we plan to do before next month's hearing is to try to take a more careful look at what is going on there.

Representative OBEY. Now putting that together, the demographic figures and the expected rate of growth, I notice that the consensus of economists is that we'll have a pretty good year in 1985 with growth of around 3 to 4 percent, but not much improvement—or deterioration for that matter—in unemployment.

Fortune magazine, on the other hand, says that they forecast growth will be a little less than 3 percent. Unemployment will increase.

I know that you don't make forecasts, but in your view if we have a growth rate of about 3 percent or so would that mean that unemployment is likely, other things being equal, to remain about where it is or gradually rise? What's your expectation?

Ms. NORWOOD. It's going to be very difficult to reduce unemployment if the labor force continues to grow, say, 3.5 percent or so per

year. We're going to have to keep running, in a sense, in production and the economy just to stand still.

And there are lots of different estimates of what is going to happen to the labor force. I think one of the signs that is positive in terms at least of the unemployment situation is that we are continuing to have a decline in the number of young people entering the labor force just because fewer of them were born to grow up and to enter the labor force in the 1980's compared to the 1960's and 1970's. Since young people have very high unemployment rates generally, they tend to push the unemployment rate up.

I think—as I've said—that women are going to resume their labor force growth but certainly not at the pace that they increased in the 1960's and the 1970's. I think they've already shown that they are going to be increasing over the last year; 54.4 percent is an extraordinarily high figure as we described—it's the highest ever.

Representative OBEY. Well, let me just give you some assumptions: Assume that we will have a growth in the labor force that averages about what we've had during the past 5 years. Assume we have economic growth of about 3 percent—real growth—in GNP. That's fairly close to the consensus.

Does that mean that we'll get no real improvement in unemployment probably in the next year if those are the facts?

Ms. NORWOOD. It would be very difficult. It certainly would.

I happen to have here the data for the 26 months of recovery in 1975, after the 1975 recession and 26 months after the 1982 recession. And if you look at those data you see first of all that in the 26 months from March of 1975 to May of 1977, the labor force grew at a 5.9 percent rate. In the current recovery it grew at roughly a little more than half that rate, 3.5 percent. But the important thing is that the composition of labor force growth is very different in the two recoveries. The one group that grew faster in percentage terms during the current recovery is the black population. And that, of course, will put more upward pressure on unemployment because—as you and I have discussed very often—their rates are extraordinarily high.

So I think there's a lot of difference in the composition of the labor force and this will have some effect on the unemployment rate because some groups of the population have a harder time in the labor market than others.

But you're quite right that the labor force continues to grow and that the economy had to grow in order to provide jobs for those people and that if it doesn't grow enough then you're going to have problems in reducing unemployment.

Senator PROXMIRE. In other words, another indication of weakness in the economy in the future as far as employment is concerned. You reported that the length of the workweek in manufacturing, which has been comparatively high throughout the recovery, declined last month. Of course, that may be a harbinger of people being laid off. The first thing that is done is the hours of work go down, that overtime goes down and so forth.

What, if anything, do such changes in factory hours suggest about employment growth in manufacturing industries?

Ms. NORWOOD. Manufacturing hours are only down a tenth of an hour in January and the average workweek in some of the industries is still fairly high. If you look, for example, at manufacturing as a whole or durable goods, the workweek is about where it was last fall, in September.

Senator PROXMIRE. And the unemployment rate in manufacturing is up significantly, right? So you have the hours of work down, unemployment up, and up significantly?

Ms. NORWOOD. The January increase in unemployment for workers in manufacturing industries was not significant.

Senator PROXMIRE. Now, one aspect of the misery index that usually isn't measured is the number of people who are unemployed but not drawing unemployment compensation.

What proportion of the unemployed are drawing unemployment compensation, unemployment insurance?

Ms. NORWOOD. According to our figures, 38 percent.

Senator PROXMIRE. 38 percent?

Ms. NORWOOD. Yes, sir.

Senator PROXMIRE. In other words, about 6 out of 10 are not who are out of work. Now the Federal Supplemental Compensation Program expires in March. That currently provides additional benefits to jobless workers who've exhausted the 26 weeks typically available under the regular State program. You report that in January 1.3 million or 15 percent of the unemployed were jobless for 27 weeks or more. How many of these workers are reached by the FSC Program?

Ms. NORWOOD. We don't really know that, Senator Proxmire. We don't know what really happens to people after they've exhausted their benefits and it's very hard for us to track these people. As we've discussed many times, there are problems in terms of the statistical aspects of the unemployment insurance data.

Mr. PLEWES. 250,000 in September, for example, have exhausted benefits. The number on extended benefits in January, our survey week, was about 300,000 versus the number of over a million who were unemployed 27 weeks or more.

Senator PROXMIRE. And how many of these workers—the long-term unemployed—are reached by the FSC Program?

Ms. NORWOOD. There were 314,000 persons during the survey week on extended benefits.

Senator PROXMIRE. Are the number of long-term unemployment workers—is that percentage still very high?

Ms. NORWOOD. Yes, it is very high. It declined by 100,000 over the month but it's still at 1.3 million. That's quite a high number.

Senator PROXMIRE. That's quite high compared to past experience with this level of unemployment.

Ms. NORWOOD. Well, I'm pleased to see some movement in that figure because it had been stuck at 1.4 million since October.

Senator PROXMIRE. How quickly, on the average, do people find jobs after their unemployment insurance runs out?

Ms. NORWOOD. I don't have any figures.

Senator PROXMIRE. The chairman has very graciously permitted me to go ahead and I'm going to impose on him just a little bit longer.

Ms. Norwood, our trade deficit last year was \$123 billion. How many jobs were lost because of that deficit?

Ms. NORWOOD. I don't know.

Senator PROXMIRE. Can you find out and let us know for the record?

Ms. NORWOOD. I don't think anyone can really calculate that.

Senator PROXMIRE. Why not?

Ms. NORWOOD. It is very difficult to determine what the changes would be in the economy as a whole if you started producing something that you are not now producing. The major reason we're importing goods is because it's more efficient to do so because they're cheaper. If we were to produce those imports ourselves the answer would depend on what the conditions were that we imported them on and then what happened to the shift in resources that might occur in the rest of the economy.

I just don't think that one can come up with a very good figure. It's a little bit easier to look at the jobs related to exports.

Senator PROXMIRE. Have the people who put the numbers into econometric models come up with answers? Are they unable to do that in this case?

Ms. NORWOOD. Well, there are a lot of people who come up with a lot of answers but I don't think that there is any way to come up with one that has enough validity to publish it.

Senator PROXMIRE. Can't even make an estimate on them?

Ms. NORWOOD. No.

Senator PROXMIRE. You would agree that when we have that kind of a deficit it does have a depressing effect on our job market, we lose jobs. Would we be better off if we had a trade balance?

Ms. NORWOOD. We certainly would have a different economy.

Senator PROXMIRE. From that standpoint?

Ms. NORWOOD. We have problems in having a very large trade deficit, there's no question about that. I'm not sure, however, that we would necessarily have more jobs if we did not import as many goods because the trade deficit, of course, is also having an effect on the economy and there are places where there are jobs that are being created.

I think that one needs to be rather careful of translating the deficit into the job market. There are—as you well know—very serious financial problems related to the trade deficit.

Senator PROXMIRE. Let me ask you if there's any rule of thumb for translating a loss of, say, a billion dollars in exports to the number of jobs we lose?

Ms. NORWOOD. Yes, one can use input-output analysis and input-output tables to do that, and we can provide you with those figures. But those figures are based upon the assumption that everything else remains the same and if we were in this country to do something, for example, to shut off all imports and to produce those goods that we are now importing, nothing would remain the same. There would be all kinds of shifts in factors of production and from industry to industry and so I don't think those figures can be relied upon.

Senator PROXMIRE. Well, is it possible that the growth of GNP and stable prices and stable interest rates—or declining interest

rates—in spite of record Federal deficits is the result of the strong dollar and the inflow on capital and goods?

Ms. NORWOOD. The inflow of imports is having an effect clearly on prices, on our CPI. And the effect on interest rates is also somewhat speculative, as you well know, because there are different theories about whether some of this is coming back to us because we are reducing our investments abroad and how much of it is coming because the United States is a safe haven for foreigners so that it is a little tricky to analyze these relationships.

Senator PROXMIRE. Well we do know that, of course, the fact that we're able to lean on other countries for capital opposed to on the cost account; opposed to on the basis of extent. We couldn't do that, obviously, in this case it would have to be higher.

Now, you report that the current recovery is 26 months old. Since World War II how long, on the average, does a recovery period last?

Ms. NORWOOD. I do have that. It's one of the longer ones. I can't put my finger on it.

Senator PROXMIRE. Let me—counting only 6 peace-time recoveries what's the average length?

This is already longer than most, right?

Ms. NORWOOD. Of the seven previous post-World War II recoveries two lasted less time than the current one has up to this point.

Senator PROXMIRE. And we have 9 million people out of work; 8.5 million—excuse me—adjusted; 7.2 percent of the work force, very high historically and we re—we have a mature recovery.

Now you report that because the 1980 census found a larger Hispanic population, various adjustments have been made in the employment and unemployment levels for this group. This report this morning reflects that.

Ms. Norwood. That's right.

Senator PROXMIRE. Did these revisions have any effect on the overall unemployment rate?

Ms. NORWOOD. No sir, it did not. It did not even have much of an effect on the Hispanic unemployment rate. It affected the levels both of employment and unemployment for Hispanics only.

Senator PROXMIRE. To what extent?

Ms. NORWOOD. We—

Senator PROXMIRE. Tend to increase the level reported?

Ms. NORWOOD. Yes. For both employment and unemployment of Hispanics only the level was increased.

Senator PROXMIRE. If you hadn't made that adjustment would you have been reporting the same level of unemployment to us this morning?

Ms. NORWOOD. Yes, we would.

Senator PROXMIRE. Besides Hispanics, are there any other new adjustments of data that BLS has introduced in the January report?

Ms. NORWOOD. Yes, there are some changes in the statistical estimation procedure. They are highly technical and we calculated the data for December both ways and looked at the December to January change and there was no noticeable difference.

Senator PROXMIRE. How many States still have unemployment rates above the national average?

Mr. PLEWES. The most recent data we have again is for the month of November. During that month, perhaps——

Senator PROXMIRE. You have nothing more recent than November?

Ms. NORWOOD. Not for all States. There's a 2-month lag for all except 11 large States.

Senator PROXMIRE. But this is the first time you've been able to report to us on the——

Mr. PLEWES. On the States with unemployment higher than the national average in November, yes. These are Alabama, Alaska, Arkansas, District of Columbia, Illinois, Indiana, Kentucky, Louisiana, Michigan, Mississippi, New Mexico, Nevada, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Washington, West Virginia, and Puerto Rico.

Senator PROXMIRE. What was the last one?

Mr. PLEWES. Puerto Rico.

Senator PROXMIRE. Doesn't include Wisconsin?

Mr. PLEWES. No, you dropped out.

Senator PROXMIRE. That's what happens when Obey becomes chairman of the Joint Economic Committee.

Representative OBEY. Thank you, Senator.

Ms. Norwood, I should respond to Senator Proxmire's comments earlier. I have to say that I certainly didn't expect to be spending the last 2 weeks trying to figure out what happened to the Joint Economic Committee. I had expected to spend it recovering from a hernia operation and I just want to thank you for coming here again this morning.

I, frankly, get frustrated hearing your remarks because, talking about monthly changes—it isn't the whole story but nonetheless, it's something we have to do. I guess the only comment that I would say is the one that Senator Proxmire is bringing out in his question. I guess what distressed me is that we were supposed to be looking at long-term trends and that this far into a recovery we have still a huge number of people here who are not part of the economic mainstream.

It certainly indicates this country hasn't learned how to really deal with unemployment rates without getting up inflation. I think it indicates that this year we're going to concentrate almost exclusively on economic policy to deal with those problems. There've been a hell of a lot of people for a long time who have not been sharing whatever recovery the rest of the country enjoys.

I really think that therein lies one of the obligations of this committee. We have got to focus on how we might deal with these problems. Again, I think it's your job.

In terms of the trade deficit, I don't know what it means in terms of overall jobs. All I do know, coming from a rural district as Senator Abdnor does, is that considerable stress falls in individual sectors. I find it very difficult to believe that the stress is not significantly related to overall fiscal policy. Certainly there's a thread that runs from that through the trade imbalance, through the interest rates.

Senator PROXMIRE. Can I just take a couple of minutes and I apologize for taking so much time but I think this is a fascinating area. Would you agree that were it not for the strong increase in

defense production over, say, the past year unemployment and manufacturing and total unemployment would be significantly higher today?

Let me give you some figures on that.

Ms. NORWOOD. Higher or lower?

Senator PROXMIRE. That unemployment—

Ms. NORWOOD. Oh, unemployment, I'm sorry.

Senator PROXMIRE. That unemployment would be higher.

Ms. NORWOOD. Defense expenditures have created a large number of jobs, certainly.

Senator PROXMIRE. Well, and the figures are really very, very impressive. For instance, the nondefense output in equipment has dropped since July, gone down. Not a great deal but it's gone down. Defense has gone up and gone up very sharply 135.9—that was the index in July—to 141.7. So isn't it correct that since July 1984, production of defense and space equipment rose substantially while nondefense, business production, has actually declined? That seems to be the figures and economic indicators.

Ms. NORWOOD. I'm not familiar enough with those figures to interpret the declines. We have tried to track defense related civilian employment and have had great difficulty because there is so much contracting out of defense expenditures that it's rather hard to get at each individual establishment.

However, you're quite right that there has been a lot of employment in manufacturing generated by defense orders.

Senator PROXMIRE. Well, I was going to ask—the unemployment rate in manufacturing is 7.6 percent—went up 0.4 percent in the past month. Why was there such a sharp rise. Is that the defense, is that an explanation of that, too?

Ms. NORWOOD. It is partly, I think, because of the difficulties that some industries are in. Employment in some industries is still going down. If you looked at the whole primary metals group, for example, they're not doing well. They're still declining.

Senator PROXMIRE. Is it possible to estimate unemployment in defense and nondefense industries?

Ms. NORWOOD. We have not been able to come up with estimates that we can stand behind, in large part, because of the difficulty. We've looked at it in a different way. We try to look at employment, which is somewhat easier, because we do have a survey of business establishments. But even there, we have found it very difficult to identify the amount of employment that is related to defense, since so much of that is based upon a system of contracting, so that a small part of production in one place or another may be related to defense.

Senator PROXMIRE. Well, is it fair to say that unemployment in nondefense manufacturing went up by more than 0.4 percent since December, in view of the fact the unemployment rate in manufacturing went up 0.4 percent and that includes defense? You can't say that?

Ms. NORWOOD. No. It's possible. I just don't know.

Senator PROXMIRE. Thank you, Mr. Chairman.

Representative OBEY. One last question. You indicated that it was very difficult to track what actually happens to the people who were unemployed and wound up dropping off the eligibility lists.

As you know, the Congress last year, my other hat, in the House Appropriations Committee, we provided \$5 million, I believe is the number, for the purpose, really, at the urging of Congressman Ford, of trying to establish just such a study. It would figure out exactly what happens to people, after that happens.

Can you tell me what the status of that is?

Ms. NORWOOD. We did, last year, as the Congress directed, begin some considerable pilot work—using fiscal year 1984 funds for work in eight track States. These States are currently developing the program to identify and track persons affected by mass layoffs. The Office of Management and Budget informed the Appropriations Committees of a deferral of the allocation of that money to the Bureau in this fiscal year, and I'm sure that will be all straightened out in the next few weeks.

Representative OBEY. Me, too. [Laughter.]

Thank you very much. The committee stands adjourned.

[Whereupon, at 10:29 a.m., the committee adjourned, subject to the call of the Chair.]

EMPLOYMENT-UNEMPLOYMENT

FRIDAY, MARCH 8, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m., in room 2359, Rayburn House Office Building, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representatives Obey, Hawkins, and Lungren; and Senator Proxmire.

Also present: Charles H. Bradford, assistant director; and William R. Buechner and Christopher J. Frenze, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. We have with us this morning Janet Norwood who will be giving us the latest employment numbers from the Bureau of Labor Statistics.

Before we proceed I would like to make just a short statement.

Since May of last year the civilian unemployment rate has remained virtually unchanged, fluctuating from somewhere between 7.1 and 7.5 percent, and the 7.3 percent announced today by the BLS fits right into that pattern. It shows that our economy is making no new progress for the 8.4 million people who want work but can't find it.

Last year, the gross national product rose about 6.9 percent, the best performance in 30 years. Corporate profits were a record \$287 billion. Per capita disposal income rose 5.8 percent, the best since 1973. This is welcome news and we should be very happy about it.

But the fact is that, as the jobless figures continue to demonstrate, there is considerable hardship still being felt by millions of people who are being left behind. Part-time workers who want full-time jobs but still can't find them; people who've given up looking for jobs and aren't even counted among the officially unemployed; displaced workers who depend on wives and teenagers to hold the family budget together; and the long-term unemployed whose unemployment benefits are expiring.

The hardship felt by all of these people is an economic and a moral cloud over the recovery and the recovery alone is not dealing with their problem.

There are two other issues of immediate concern which the Congress will be dealing with in the coming months, the expiration of the Federal Supplemental Compensation Program at the end of this month, and the administration's plans to reduce the budget of

the Bureau of Labor Statistics, particularly the rescission of funding for the mass layoff report which I will want to get into in a few moments.

I hope we can address these and other issues this morning and Ms. Norwood, I welcome you here.

Senator Lungren, did you want to say anything before we begin?

Representative LUNGREN. Yes, I'll accept the nomination.

Representative OBEY. I'm sorry; that's right.

OPENING STATEMENT OF REPRESENTATIVE LUNGREN

Representative LUNGREN. Yes, I'd like to join the chairman in welcoming you, Commissioner Norwood, this morning. We, obviously, may look at things a little differently up here on the panel. The glass is either half full or half empty, I guess, depending upon your perspective and although there is the continuation of unemployment at levels that we would all like to get down, there is some good news that you bring to us.

One of the most interesting things that I find is that the labor force participation rate, at 64.8 percent as I understand it, is an all-time high. In February, the employment population ratio climbed to its record level of 60.1 percent first set in 1979. So both the labor force participation and employment population ratio for adult women are now at new highs.

I don't mean by saying this that everything is rosy, but I think that those type of figures are something that we ought to look at because that's something we've never had before. It also indicates there are some new challenges out for all of us, Democrat, Republican, Liberal, Conservative, alike. And my hope is that with the Index of Leading Indicators projecting continued economic growth in the months ahead that we can expect further employment gains.

Again, I would like to thank you for appearing before us here and I look forward to hearing your testimony.

Representative OBEY. Let me just say that I will apologize to Representative Fiedler for calling Representative Lungren, Senator.

Representative LUNGREN. That's all right. Senator Cranston appreciates your remarks, too.

Representative OBEY. Senator Proxmire.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. I'd just like to make a very brief announcement. Unfortunately, I'm going to have to leave because we have a resolution coming before the Defense Subcommittee of the Senate Appropriations Committee and I have to be there for it.

Before I do I did want to—you know, Brother Lungren always brings out the little lingering claim of Democrat in him. There's not much left but there's some. [Laughter.]

Every time I hear him I've got to come forward and point out, among other things, that the diffusion index is at 47 percent, the first time in 5 months.

What that suggests to me is that there are a number of industries that are in trouble in this country. Our service sector is doing all right but our manufacturing sector is having a lot of trouble

competing with foreign importers and having trouble exporting. And that, it seems to me, is reflected here.

Furthermore, the workweek dropped sharply. Now, I'm sure weather had something to do with that but it went from 40.6 to 40.0 hours per week and that certainly is a significant and clear indicator. That certainly bothers me.

And I notice the Wall Street Journal reports this morning that retailers generally reported small gains for February as merchants struggled to reduce big inventories left over from last year's sluggish holiday selling season.

So, the whole outlook seems to me to be not good and we still have, as the chairman has pointed out, a serious problem of unemployment—8.5 million Americans out of work, the rate remaining above 7 percent. Not long ago that was what would be happening at the depth of a recession and now we're supposed to be in a recovery.

So, I think there's a lot to be concerned about here, although, you do have a flicker of good news, hint of suggestion, whisper.

Thank you, Mr. Chairman.

Representative OBEY. Congressman Hawkins, we don't want to leave you out.

OPENING STATEMENT OF REPRESENTATIVE HAWKINS

Representative HAWKINS. No, I guess I—the bipartisan spirit in me is flickering, I guess. I'd rather listen to Ms. Norwood and only suggest that instead of waiting for these figures to come out every month we should be doing something about changing them and not merely being observers. We're the policymakers and it just seems to me that whether the unemployment rate is going up or down, that depends on what we do and we shouldn't be spectators in the process, but we should go about our business of legislating.

Thank you.

Representative OBEY. Ms. Norwood, please proceed.

STATEMENT OF HON. JANET L. NORWOOD, COMMISSIONER, BUREAU OF LABOR STATISTICS, DEPARTMENT OF LABOR, ACCOMPANIED BY KENNETH V. DALTON, ASSOCIATE COMMISSIONER, OFFICE OF PRICES AND LIVING CONDITIONS; JOHN E. BREGGER, DIVISION CHIEF, EMPLOYMENT AND UNEMPLOYMENT ANALYSIS; AND JEROME A. MARK, ASSOCIATE COMMISSIONER, OFFICE OF PRODUCTIVITY AND TECHNOLOGY

Ms. NORWOOD. Thank you very much, Mr. Chairman.

I have with me on my right, Kenneth Dalton, who is in charge of our price program and on my left, Jack Bregger, who is our specialist in analysis of employment and unemployment from the household survey as well as the establishment survey.

We're very pleased to be here this morning to try to offer a few comments to supplement our press release.

Employment rose moderately in February while unemployment was little changed from the January level. The overall jobless rate was 7.2 percent in February and the civilian worker rate was 7.3 percent. The number of unemployed persons was 8.4 million after seasonal adjustment.

Both the level and the rate of unemployment have changed little since last May following steady declines throughout 1983 and the first half of 1984.

Payroll employment in nonfarm business establishments rose by 120,000 in February, following a much more substantial increase in January. Large over-the-month gains in the service-producing sector were partly offset by declines in the goods-producing sector, particularly in manufacturing.

The BLS diffusion index, which is heavily weighted toward manufacturing industries, shows that employment increased in less than one-half of the 185 industries included in that index. This was the lowest index level in 5 months and substantially below the levels which have prevailed throughout most of the recovery period.

Strong over-the-month increases occurred in services, retail trade and finance, insurance, and real estate. These industries which, except for retail trade continued to grow during the 1981-82 recession, have shown solid growth rates during the last 27 months of economic expansion. Business services within the service industry, for example, has grown by close to 30 percent during the recovery. Indeed, one in every eight jobs gained during the recovery period has been in business services. Much of this growth has been in personnel supply and data processing services to other business establishments.

In contrast to the continued expansion in the service-producing sector, each of the industries in the goods-producing sector declined in February. The largest decline occurred in manufacturing where 75,000 jobs were lost. Within manufacturing, automobile employment fell by 25,000. Employment levels in this industry had increased steadily since last summer. Almost 250,000 jobs have been added in the auto industry during the 27 months of recovery and nearly 900,000 people are now employed there. With the chief exceptions of autos and electrical equipment, however, factory employment has shown little growth since last summer.

Construction employment declined by 50,000 in February. As you know, there've been continuing positive economic signs for this industry, including increases in housing starts, new construction permits, and favorable mortgage interest rates. I believe that this decline results from unusually severe winter weather in February which we understand actually shut down some construction projects. Since the February weather-related decline comes on the heels of milder-than-usual weather in the prior 2 months, it would be quite premature to draw definitive conclusions from the February change in construction.

Civilian employment, as measured by the household survey, rose by about 300,000 in February. Nearly all of the over-the-month gain was among women, teenagers, as well as adults. The number of working women has expanded by 1.7 million over the past year. Strong advances have taken place in the service producing sector of the economy and more than 8 out of every 10 working women are employed there.

The percentage of adult women who are employed, that is the employment-population ratio, reached 50.8 percent in February. This ratio has shown a long-term increase and except for brief dips

during cyclical periods, continues to reach new record highs. The February increase helped to push the overall civilian employment-population ratio to 60.1 percent, equaling the previous all-time high last reached in December 1979.

The average workweek of production or nonsupervisory workers and private nonagricultural payrolls, which had been sustained at very high levels throughout most of the recovery period, declined two-tenths of an hour to 35 hours in February. Factory hours were down six-tenths of an hour—to 40 hours. Both measures were affected by the extremely bad weather that was concentrated in the heavy manufacturing areas of the Midwest, causing many plants to cancel shifts.

Despite the continuing expansion in employment, the Nation's jobless rate has held about steady over the past few months. Employment growth since last fall has been just sufficient to provide jobs to accommodate the fairly large increase in the number of persons coming into the labor force.

There was little change in jobless rates for most labor force groups in February. However, the rate for blacks, whose labor market problems continue to be more severe than those of white workers, rose to 16.3 percent; the rate had fluctuated near 15 percent since last summer. Nearly all of the increase in black joblessness took place among adult men and women. Because the figures for blacks are subject to greater month-to-month variability than those for whites, it is difficult to judge whether the February figures mean a further widening of the already large gap in black-white jobless rates. The employment-population ratio for blacks, at 52.7 percent in February, was substantially less than that for whites—61.1 percent.

Another group of workers who continue to have difficulty in the labor market are those who have been unemployed for 15 weeks or more. Their number rose by 175,000 in February, to 2.4 million. They now comprise about 30 percent of the unemployed. That's down from a cyclical high of about 40 percent. In February, about 1.3 million of this group were jobless for 6 months or longer. In contrast to the long-duration unemployed, the number of workers employed part time for economic reasons declined significantly in February by nearly 300,000. There were still 5.3 million persons in this group.

In summary, the data for February show some contrasting movements in particular sectors of the economy and among particular labor force groups. Job gains continued in the service producing sector of the economy but factory employment declined over the month. The unemployment rate held about steady.

We'd be glad to try to answer any questions you may have, Mr. Chairman.

[The table attached to Ms. Norwood's statement, together with the press release referred to, follows:]

UNEMPLOYMENT RATES OF ALL CIVILIAN WORKERS BY ALTERNATIVE SEASONAL ADJUSTMENT METHODS

Month and year	Unadjusted rate	X-11 ARIMA method						X-11 method (official method before 1980)	Range (cols. 2-8)
		Official procedure	Concurrent (as first computed)	Concurrent (revised)	Stable	Total	Residual		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1984									
February	8.4	7.8	7.8	7.8	7.8	7.8	7.8	7.8	
March	8.1	7.8	7.8	7.8	7.7	7.8	7.7	7.8	0.1
April	7.6	7.8	7.8	7.8	7.9	7.8	7.7	7.8	.2
May	7.2	7.5	7.5	7.5	7.6	7.5	7.8	7.5	.3
June	7.4	7.2	7.2	7.2	7.2	7.2	7.3	7.2	.1
July	7.5	7.5	7.5	7.5	7.4	7.5	7.5	7.5	.1
August	7.3	7.5	7.5	7.5	7.4	7.5	7.5	7.5	.1
September	7.1	7.4	7.4	7.4	7.4	7.4	7.4	7.4	
October	7.0	7.3	7.3	7.3	7.4	7.3	7.3	7.3	.1
November	6.9	7.1	7.1	7.2	7.2	7.2	7.2	7.1	.1
December	7.0	7.2	7.2	7.2	7.3	7.2	7.1	7.1	.2
1985									
January	8.0	7.4	7.3	7.3	7.3	7.4	7.2	7.4	.2
February	7.8	7.3	7.3	7.3	7.2	7.3	7.2	7.3	.1

EXPLANATION OF COLUMN HEADS

(1) Unadjusted rate.—Unemployment rate for all civilian workers, not seasonally adjusted.

(2) Official procedure (X-11 ARIMA method).—The published seasonally adjusted rate for all civilian workers. Each of the 3 major civilian labor force components—agricultural employment, nonagricultural employment and unemployment—for 4 age-sex groups—males and females, ages 16 to 19 and 20 yr. and over—are seasonally adjusted independently using data from January 1974 forward. The data series for each of these 12 components are extended by a year at each end of the original series using ARIMA (Auto-regressive, integrated, moving average) models chosen specifically for each series. Each extended series is then seasonally adjusted with the X-11 portion of the X-11 ARIMA program. The 4 teenage unemployment and nonagricultural employment components are adjusted with the additive adjustment model, while the other components are adjusted with the multiplicative model. The unemployment rate is computed by summing the 4 seasonally adjusted unemployment components and calculating that total as a percent of the civilian labor force total derived by summing all 12 seasonally adjusted components. All the seasonally adjusted series are revised at the end of each year. Extrapolated factors for January-June are computed at the beginning of each year; extrapolated factors for July-December are computed in the middle of the year after the June data become available. Each set of 6-month factors are published in advance, in the January and July issues, respectively, of Employment and Earnings.

(3) Concurrent (as 1st computed, X-11 ARIMA method).—The official procedure for computation of the rate for all civilian workers using the 12 components is followed except that extrapolated factors are not used at all. Each component is seasonally adjusted with the X-11 ARIMA Program each month as the most recent data become available. Rates for each month of the current year are shown as 1st computed; they are revised only once each year, at the end of the year when data for the full year become available. For example, the rate for January 1984 would be based, during 1984, on the adjustment of data from the period January 1974 through January 1984.

(4) Concurrent (revised, X-11 ARIMA method).—The procedure used is identical to (3) above, and the rate for the current month (the last month displayed) will always be the same in the 2 columns. However, all previous months are subject to revision each month based on the seasonal adjustment of all the components with data through the current month.

(5) Stable (X-11 ARIMA method).—Each of the 12 civilian labor force components is extended using ARIMA models as in the official procedure and then run through the X-11 part of the program using the stable option. This option assumes that seasonal patterns are basically constant from year to year and computes final seasonal factors as unweighted averages of all the seasonal-irregular components for each month across the entire span of the period adjusted. As in the official procedure, factors are extrapolated in 6-mo intervals and the series are revised at the end of each year. The procedure for computation of the rate from the seasonally adjusted components is also identical to the official procedure.

(6) Total (X-11 ARIMA method).—This is one alternative aggregation procedure, in which total unemployment and civilian labor force levels are extended with ARIMA models and directly adjusted with multiplicative adjustment models in the X-11 part of the program. The rate is computed by taking seasonally adjusted total unemployment as a percent of seasonally adjusted total civilian labor force. Factors are extrapolated in 6-mo intervals and the series revised at the end of each year.

(7) Residual (X-11 ARIMA method).—This is another alternative aggregation method, in which total civilian employment and civilian labor force levels are extended using ARIMA models and then directly adjusted with multiplicative adjustment models. The seasonally adjusted unemployment level is derived by subtracting seasonally adjusted employment from seasonally adjusted labor force. The rate is then computed by taking the derived unemployment level as a percent of the labor force level. Factors are extrapolated in 6-mo intervals and the series revised at the end of each year.

(8) X-11 method (official method before 1980).—The method for computation of the official procedure is used except that the series are not extended with ARIMA models and the factors are projected in 12-mo intervals. The standard X-11 Program is used to perform the seasonal adjustment. Methods of Adjustment.—The X-11 ARIMA method was developed at Statistics Canada by the seasonal adjustment and times series staff under the direction of Estela Bee Dagum. The method is described in "The X-11 ARIMA Seasonal Adjustment Method," by Estela Bee Dagum, Statistics Canada Catalog No. 12-564E, February 1980.

The standard X-11 method is described in "X-11 Variant of the Census Method II Seasonal Adjustment Program," by Julius Shiskin, Allan Young, and John Musgrave (Technical Paper No. 15, Bureau of the Census, 1967).

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 1985.

News

United States
Department
of Labor



Bureau of Labor Statistics

Washington, D.C. 20212

Technical information: (202) 523-1371
523-1944
523-1959
Media contact: 523-1913

USDL 85-97

TRANSMISSION OF MATERIAL IN THIS
RELEASE IS EMBARGOED UNTIL
8:30 A.M. (EST), FRIDAY,
MARCH 8, 1985

THE EMPLOYMENT SITUATION: FEBRUARY 1985

Employment rose slightly in February, while unemployment was little changed, the Bureau of Labor Statistics of the U.S. Department of Labor reported today. The overall unemployment rate was 7.2 percent, and the rate for civilian workers was 7.3 percent. Both rates have fluctuated within a relatively narrow range since last May, after falling sharply in the preceding year and a half.

Civilian employment--as measured by the monthly survey of households--totaled 106.7 million in February, up nearly 300,000 over the month. The number of nonagricultural payroll jobs--as measured by the monthly survey of establishments--advanced by 120,000. Both measures of employment have risen by a little more than 400,000 since last December and by about 7-1/2 million since the recovery began in late 1982.

Unemployment (Household Survey Data)

Both the level of unemployment and the rate for all civilian workers were little changed in February at 8.4 million and 7.3 percent, respectively, after allowing for seasonality. None of the major age-sex groups showed any significant changes, but there were divergent movements between black and white workers. The unemployment rate for blacks rose by 1.4 percentage points to 16.3 percent, largely as a result of increased joblessness among adult men. The rate for whites eased down from 6.4 to 6.2 percent. (See tables A-2 and A-3.)

The average duration of unemployment rose slightly in February, as the number unemployed for 15 to 26 weeks increased by 175,000 and the number out of work less than 5 weeks edged down. The number of persons jobless for 6 months or longer remained at 1.3 million. The median duration of unemployment was 7.2 weeks, and the average duration was 15.9 weeks. (See table A-7.)

The number of persons working part time for economic reasons--sometimes referred to as the partially unemployed--fell by 295,000 in February to 5.3 million. Almost all of this decline resulted from a drop in the number of people reporting short hours due to slack work; there was little change in the number who were unable to obtain full-time jobs. (See table A-4.)

Civilian Employment and the Labor Force (Household Survey Data)

Civilian employment rose to 106.7 million (seasonally adjusted) in February, continuing an uptrend that has totaled 2.7 million over the past

year. Virtually all of the over-the-month increase took place among women 16 years of age and over. The civilian employment-population ratio, at 60.1 percent in February, equaled the all-time high for this series, last reached in 1979. (See table A-2.)

The civilian labor force, at 115.1 million, was little changed in February, and the labor force participation rate remained at 64.8 percent.

Table A. Major indicators of labor market activity, seasonally adjusted

Category	Quarterly averages		Monthly data			Jan.- Feb. change
	1984		1984	1985		
	III	IV	Dec.	Jan.	Feb.	
HOUSEHOLD DATA						
	Thousands of persons					
Labor force 1/.....	115,464	115,885	116,162	116,572	116,787	215
Total employment 1/.....	107,016	107,652	107,971	108,088	108,388	300
Civilian labor force.....	113,754	114,185	114,464	114,875	115,084	209
Civilian employment.....	105,306	105,951	106,273	106,391	106,685	294
Unemployment.....	8,447	8,233	8,191	8,484	8,399	-85
Not in labor force.....	62,841	62,948	62,842	62,509	62,432	-77
Discouraged workers.....	1,211	1,303	N.A.	N.A.	N.A.	N.A.
	Percent of labor force					
Unemployment rates:						
All workers 1/.....	7.3	7.1	7.1	7.3	7.2	-0.1
All civilian workers.....	7.4	7.2	7.2	7.4	7.3	-0.1
Adult men.....	6.4	6.2	6.3	6.3	6.3	0
Adult women.....	6.8	6.6	6.4	6.8	6.7	-0.1
Teenagers.....	18.6	18.4	18.8	18.9	18.4	-0.5
White.....	6.4	6.2	6.2	6.4	6.2	-0.2
Black.....	15.8	15.1	15.0	14.9	16.3	1.4
Hispanic origin.....	10.6	10.5	10.4	10.6	9.7	-0.9
ESTABLISHMENT DATA						
	Thousands of jobs					
Nonfarm payroll employment..	94,560	95,445	95,681	95,993p	96,112p	119p
Goods-producing.....	25,056	25,154	25,258	25,332p	25,196p	-136p
Service-producing.....	69,504	70,291	70,423	70,661p	70,916p	255p
	Hours of work					
Average weekly hours:						
Total private nonfarm.....	35.3	35.2	35.3	35.2p	35.0p	-0.2p
Manufacturing.....	40.5	40.5	40.7	40.6p	40.0p	-0.6p
Manufacturing overtime....	3.3	3.4	3.4	3.3p	3.3p	0p

^{1/} Includes the resident Armed Forces.

N.A.=not available.

p=preliminary.

The participation rate for adult women, which had risen sharply in January, edged up to 54.5 percent. Over the year, the labor force grew by 2.2 million, with adult women accounting for 70 percent of the increase.

Industry Payroll Employment (Establishment Survey Data)

Total nonagricultural payroll employment rose by 120,000 in February to 96.1 million, after seasonal adjustment. This increase reflected a continuation of strength within the service-producing sector that was partially offset by declines in the goods-producing industries. The service sector has accounted for four-fifths of the 3.2 million over-the-year increase in employment. February increases occurred in slightly fewer than half of the industries in the BLS index of diffusion, which is heavily weighted toward the goods industries. (See tables B-1 and B-6.)

The largest over-the-month increases took place in services and retail trade--about 100,000 each. Finance, insurance, and real estate also posted a sizable employment increase, and there was a modest gain in wholesale trade. Altogether, employment rose by 255,000 in the service-producing sector.

In contrast, employment declined in all three of the goods-producing industries. Manufacturing jobs fell by 75,000. Although declines were fairly pervasive, the bulk of this drop occurred in durable goods, most notably in the automobile industry, which decreased by 25,000. Auto employment levels had remained particularly strong in recent months. Elsewhere in durable goods, large declines occurred in the lumber and wood products, machinery, and fabricated metals industries. Within nondurable goods, the largest over-the-month losses were in the textile mill products and apparel industries.

Construction employment declined by 50,000 in February, after seasonal adjustment, in part the result of the extremely poor weather conditions. Milder-than-usual conditions in December and January had allowed wintertime construction activity to remain unusually high. The February decline in mining sustained a 5-month downtrend; much of the reduction occurred in oil and gas extraction.

Weekly Hours (Establishment Survey Data)

Average weekly hours for production or nonsupervisory workers on private nonagricultural payrolls, at 35.0 hours in February, seasonally adjusted, were down 0.2 hour over the month. (See table B-2.)

The manufacturing workweek decreased by 0.6 hour to 40.0 hours in February, while factory overtime, at 3.3 hours, was unchanged. Declines in the factory workweek were widespread, stemming from the unusually harsh weather that plagued the central portion of the United States during the survey reference week. The largest decrease took place in the automobile industry--2.3 hours.

Due to the drop in hours, the index of aggregate weekly hours of production or nonsupervisory workers on private nonagricultural payrolls--which reflects developments in both hours and employment levels--dropped 0.3 percent to 114.4 (1977=100) in February. Indices declined sharply in construction and manufacturing. (See table B-5.)

Hourly and Weekly Earnings (Establishment Survey Data)

Average hourly earnings rose 0.5 percent in February, and weekly earnings were about unchanged, after seasonal adjustment. Prior to seasonal adjustment, average hourly earnings increased 1 cent to \$8.51, and average weekly earnings were down \$1.35 to \$295.30. Over the past year, hourly earnings were up 27 cents, and weekly earnings rose \$6.90. (See table B-3.)

The Hourly Earnings Index (Establishment Survey Data)

The Hourly Earnings Index (HEI) was 163.7 (1977=100) in February, seasonally adjusted, an increase of 0.6 percent from January. For the 12 months ended in February, the increase (before seasonal adjustment) was 3.3 percent. The HEI excludes the effects of two types of changes unrelated to underlying wage rate movements--fluctuations in overtime in manufacturing and interindustry employment shifts. In dollars of constant purchasing power, the HEI decreased 0.5 percent during the 12-month period ended in January. (See table B-4.)

Explanatory Note

This news release presents statistics from two major surveys, the Current Population Survey (household survey) and the Current Employment Statistics Survey (establishment survey). The household survey provides the information on the labor force, total employment, and unemployment that appears in the A tables, marked HOUSEHOLD DATA. It is a sample survey of about 59,500 households that is conducted by the Bureau of the Census with most of the findings analyzed and published by the Bureau of Labor Statistics (BLS).

The establishment survey provides the information on the employment, hours, and earnings of workers on nonagricultural payrolls that appears in the B tables, marked ESTABLISHMENT DATA. This information is collected from payroll records by BLS in cooperation with State agencies. The sample includes approximately 200,000 establishments employing over 35 million people.

For both surveys, the data for a given month are actually collected for and relate to a particular week. In the household survey, unless otherwise indicated, it is the calendar week that contains the 12th day of the month, which is called the survey week. In the establishment survey, the reference week is the pay period including the 12th, which may or may not correspond directly to the calendar week.

The data in this release are affected by a number of technical factors, including definitions, survey differences, seasonal adjustments, and the inevitable variance in results between a survey of a sample and a census of the entire population. Each of these factors is explained below.

Coverage, definitions, and differences between surveys

The sample households in the household survey are selected so as to reflect the entire civilian noninstitutional population 16 years of age and older. Each person in a household is classified as employed, unemployed, or not in the labor force. Those who hold more than one job are classified according to the job at which they worked the most hours.

People are classified as *employed* if they did any work at all as paid civilians; worked in their own business or profession or on their own farm; or worked 15 hours or more in an enterprise operated by a member of their family, whether they were paid or not. People are also counted as employed if they were on unpaid leave because of illness, bad weather, disputes between labor and management, or personal reasons. Members of the Armed Forces stationed in the United States are also included in the employed total.

People are classified as *unemployed*, regardless of their eligibility for unemployment benefits or public assistance, if they meet all of the following criteria: They had no employment during the survey week; they were available for work at

that time; and they made specific efforts to find employment sometime during the prior 4 weeks. Also included among the unemployed are persons not looking for work because they were laid off and waiting to be recalled and those expecting to report to a job within 30 days.

The *labor force* equals the sum of the number employed and the number unemployed. The *unemployment rate* is the percentage of unemployed people in the labor force (civilian plus the resident Armed Forces). Table A-5 presents a special grouping of seven measures of unemployment based on varying definitions of unemployment and the labor force. The definitions are provided in the table. The most restrictive definition yields U-1 and the most comprehensive yields U-7. The overall unemployment rate is U-5a, while U-5b represents the same measure with a civilian labor force base.

Unlike the household survey, the establishment survey only counts wage and salary employees whose names appear on the payroll records of nonagricultural firms. As a result, there are many differences between the two surveys, among which are the following:

- The household survey, although based on a smaller sample, reflects a larger segment of the population; the establishment survey excludes agriculture, the self-employed, unpaid family workers, private household workers, and members of the resident Armed Forces.

- The household survey includes people on unpaid leave among the employed; the establishment survey does not.

- The household survey is limited to those 16 years of age and older; the establishment survey is not limited by age.

- The household survey has no duplication of individuals, because each individual is counted only once; in the establishment survey, employees working at more than one job or otherwise appearing on more than one payroll would be counted separately for each appearance.

Other differences between the two surveys are described in "Comparing Employment Estimates from Household and Payroll Surveys," which may be obtained from the BLS upon request.

Seasonal adjustment

Over the course of a year, the size of the Nation's labor force and the levels of employment and unemployment undergo sharp fluctuations due to such seasonal events as changes in weather, reduced or expanded production, harvests, major holidays, and the opening and closing of schools. For example, the labor force increases by a large number each June, when schools close and many young people enter the job market. The effect of such seasonal variation can be very large; over the course of a year, for example, seasonality may account for as much as 95 percent of the month-to-month changes in unemployment.

Because these seasonal events follow a more or less regular pattern each year, their influence on statistical trends can be eliminated by adjusting the statistics from month to month. These adjustments make nonseasonal developments, such as declines in economic activity or increases in the participation of women in the labor force, easier to spot. To return to the school's-out example, the large number of people entering the labor force each June is likely to obscure any other changes that have taken place since May, making it difficult to determine if the level of economic activity has risen or declined. However, because the effect of students finishing school in previous years is known, the statistics for the current year can be adjusted to allow for a comparable change. Insofar as the seasonal adjustment is made correctly, the adjusted figure provides a more useful tool with which to analyze changes in economic activity.

Measures of labor force, employment, and unemployment contain components such as age and sex. Statistics for all employees, production workers, average weekly hours, and average hourly earnings include components based on the employer's industry. All these statistics can be seasonally adjusted either by adjusting the total or by adjusting each of the components and combining them. The second procedure usually yields more accurate information and is therefore followed by BLS. For example, the seasonally adjusted figure for the labor force is the sum of eight seasonally adjusted civilian employment components, plus the resident Armed Forces total (not adjusted for seasonality), and four seasonally adjusted unemployment components; the total for unemployment is the sum of the four unemployment components; and the overall unemployment rate is derived by dividing the resulting estimate of total unemployment by the estimate of the labor force.

The numerical factors used to make the seasonal adjustments are recalculated regularly. For the household survey, the factors are calculated for the January-June period and again for the July-December period. The January revision is applied to data that have been published over the previous 5 years. For the establishment survey, updated factors for seasonal adjustment are calculated only once a year, along with the introduction of new benchmarks which are discussed at the end of the next section.

Sampling variability

Statistics based on the household and establishment surveys are subject to sampling error, that is, the estimate of the number of people employed and the other estimates drawn from these surveys probably differ from the figures that would be obtained from a complete census, even if the same questionnaires and procedures were used. In the household survey, the amount of the differences can be expressed in terms of standard errors. The numerical value of a standard error depends upon the size of the sample, the results of the survey, and other factors. However, the numerical value is always such that the chances are approximately 68 out of 100 that an estimate based on the sample will differ by no more than the standard error

from the results of a complete census. The chances are approximately 90 out of 100 that an estimate based on the sample will differ by no more than 1.6 times the standard error from the results of a complete census. At approximately the 90-percent level of confidence—the confidence limits used by BLS in its analyses—the error for the monthly change in total employment is on the order of plus or minus 328,000; for total unemployment it is 220,000; and, for the overall unemployment rate, it is 0.19 percentage point. These figures do not mean that the sample results are off by these magnitudes but, rather, that the chances are approximately 90 out of 100 that the "true" level or rate would not be expected to differ from the estimates by more than these amounts.

Sampling errors for monthly surveys are reduced when the data are cumulated for several months, such as quarterly or annually. Also, as a general rule, the smaller the estimate, the larger the sampling error. Therefore, relatively speaking, the estimate of the size of the labor force is subject to less error than is the estimate of the number unemployed. And, among the unemployed, the sampling error for the jobless rate of adult men, for example, is much smaller than is the error for the jobless rate of teenagers. Specifically, the error on monthly change in the jobless rate for men is .26 percentage point; for teenagers, it is 1.25 percentage points.

In the establishment survey, estimates for the 2 most current months are based on incomplete returns; for this reason, these estimates are labeled preliminary in the tables. When all the returns in the sample have been received, the estimates are revised. In other words, data for the month of September are published in preliminary form in October and November and in final form in December. To remove errors that build up over time, a comprehensive count of the employed is conducted each year. The results of this survey are used to establish new benchmarks—comprehensive counts of employment—against which month-to-month changes can be measured. The new benchmarks also incorporate changes in the classification of industries and allow for the formation of new establishments.

Additional statistics and other information

In order to provide a broad view of the Nation's employment situation, BLS regularly publishes a wide variety of data in this news release. More comprehensive statistics are contained in *Employment and Earnings*, published each month by BLS. It is available for \$4.50 per issue or \$31.00 per year from the U.S. Government Printing Office, Washington, D.C., 20204. A check or money order made out to the Superintendent of Documents must accompany all orders.

Employment and Earnings also provides approximations of the standard errors for the household survey data published in this release. For unemployment and other labor force categories, the standard errors appear in tables B through J of its "Explanatory Notes." Measures of the reliability of the data drawn from the establishment survey and the actual amounts of revision due to benchmark adjustments are provided in tables M, O, P, and Q of that publication.

HOUSEHOLD DATA

HOUSEHOLD DATA

Table A-1. Employment status of the population, including Armed Forces in the United States, by sex

(Numbers in thousands)

Employment status and sex	Not seasonally adjusted			Seasonally adjusted ¹					
	Feb. 1984	Jan. 1985	Feb. 1985	Feb. 1985	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
TOTAL									
Noninstitutional population ²	171,363	170,081	170,219	171,363	170,661	170,836	170,004	170,081	170,219
Labor force ³	111,057	115,172	115,295	111,057	115,721	115,773	116,162	115,572	116,787
Participation rate ⁴	64.3	67.3	67.5	64.3	67.8	67.7	68.3	67.6	68.4
Total employed ⁵	101,645	106,041	106,393	101,645	107,354	107,631	107,971	108,088	108,388
Employment-population ratio ⁶	59.4	62.3	62.5	59.4	62.9	62.8	63.5	63.0	63.4
Resident Armed Forces	1,894	1,897	1,703	1,894	1,705	1,699	1,699	1,697	1,703
Civilian employed	101,961	104,344	104,690	101,888	105,649	105,932	106,271	106,391	106,685
Agriculture	2,857	2,830	2,833	3,364	3,149	3,134	3,385	3,320	3,340
Nonagricultural industries	99,104	101,514	101,857	98,524	102,500	102,800	102,886	103,071	103,345
Unemployed	8,407	8,131	8,902	8,386	8,367	8,142	8,191	8,484	8,399
Unemployment rate ⁷	8.3	7.0	7.7	7.5	7.2	7.0	7.1	7.3	7.2
Not in labor force	60,306	54,909	54,924	60,306	54,940	55,165	53,842	54,509	53,832
Men, 16 years and over									
Noninstitutional population ²	84,811	85,629	85,692	84,811	85,519	85,523	85,607	85,629	85,692
Labor force ³	54,203	58,914	58,926	54,203	58,558	58,567	58,814	58,822	58,918
Participation rate ⁴	63.9	68.8	68.9	63.9	68.5	68.5	68.8	68.8	68.9
Total employed ⁵	48,629	52,704	52,666	48,629	52,113	52,119	52,352	52,352	52,352
Employment-population ratio ⁶	57.3	61.5	61.5	57.3	60.8	60.8	61.2	61.2	61.2
Resident Armed Forces	1,540	1,549	1,540	1,540	1,557	1,552	1,550	1,549	1,549
Civilian employed	47,089	51,155	51,126	47,089	50,556	50,567	50,802	50,803	50,803
Unemployed	5,574	5,209	5,300	5,574	5,445	5,011	4,562	4,509	4,509
Unemployment rate ⁷	8.7	6.0	6.1	8.6	6.9	6.4	6.9	7.0	7.0
Women, 16 years and over									
Noninstitutional population ²	86,552	84,452	84,527	86,552	85,142	85,313	84,397	84,452	84,527
Labor force ³	46,854	50,258	50,469	46,854	50,163	50,116	50,348	50,750	50,970
Participation rate ⁴	54.1	59.5	59.6	54.1	58.8	58.7	59.7	60.1	60.3
Total employed ⁵	43,089	46,155	46,126	43,089	46,597	46,581	46,719	46,874	47,162
Employment-population ratio ⁶	49.9	54.5	54.5	49.9	53.5	53.5	54.3	54.4	54.5
Resident Armed Forces	144	148	149	144	148	147	148	148	149
Civilian employed	42,945	45,997	45,977	42,945	46,449	46,437	46,571	46,726	47,013
Unemployed	3,813	3,926	3,740	3,813	3,827	3,545	3,829	3,926	3,926
Unemployment rate ⁷	8.8	8.8	8.2	8.8	8.3	7.8	8.2	8.6	8.6

¹ The population and Armed Forces figures are not adjusted for seasonal variation; therefore, identical numbers appear in the unadjusted and seasonally adjusted columns.

² Includes members of the Armed Forces stationed in the United States.

³ Labor force as a percent of the noninstitutional population.

⁴ Total employment as a percent of the noninstitutional population.

⁵ Unemployment as a percent of the labor force (including the resident Armed Forces).

HOUSEHOLD DATA

HOUSEHOLD DATA

Table A-2. Employment status of the civilian population by sex and age

(Numbers in thousands)

Employment status, sex, and age	Not seasonally adjusted			Seasonally adjusted ¹					
	Feb. 1984	Jan. 1985	Feb. 1985	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
TOTAL									
Civilian noninstitutional population	175,479	177,384	177,516	175,479	176,956	177,135	177,306	177,384	177,516
Civilian labor force	111,368	113,475	113,592	112,724	114,018	114,074	114,464	114,875	115,084
Participation rate	63.4	64.0	64.0	64.2	64.6	64.4	64.6	64.8	64.8
Employed	101,961	104,344	104,690	103,888	105,449	105,932	106,273	106,391	106,485
Employment-population ratio ²	58.0	58.8	59.0	59.1	59.7	59.8	59.9	60.0	60.1
Unemployed	9,407	9,131	8,902	8,836	8,567	8,142	8,191	8,484	8,599
Unemployment rate	8.4	8.0	7.8	7.8	7.3	7.1	7.2	7.4	7.3
Men, 20 years and over									
Civilian noninstitutional population	75,786	76,760	76,829	75,786	76,565	76,663	76,753	76,760	76,829
Civilian labor force	58,964	59,574	59,557	59,372	59,913	59,996	60,131	60,033	60,061
Participation rate	77.8	77.6	77.5	78.3	78.3	78.3	78.3	78.2	78.2
Employed	54,220	55,181	55,240	55,233	56,182	56,269	56,377	56,334	56,287
Employment-population ratio ²	71.5	71.9	71.9	72.9	73.4	73.4	73.4	73.3	73.3
Agriculture	2,156	2,173	2,123	2,399	2,334	2,434	2,494	2,417	2,362
Nonagricultural industries	52,064	53,010	53,117	52,834	53,848	53,835	53,878	53,917	53,926
Unemployed	4,743	4,391	4,317	4,139	3,731	3,725	3,759	3,708	3,774
Unemployment rate	8.0	7.4	7.2	7.0	6.2	6.2	6.3	6.3	6.3
Women, 20 years and over									
Civilian noninstitutional population	84,962	84,015	84,084	84,962	85,793	85,897	85,995	84,015	84,084
Civilian labor force	55,223	56,625	56,779	55,313	56,264	56,279	56,443	56,771	56,894
Participation rate	65.2	66.2	66.3	65.1	64.4	64.3	64.5	65.2	65.3
Employed	42,048	43,322	43,612	42,178	43,081	43,252	43,511	43,610	43,766
Employment-population ratio ²	49.5	50.4	50.7	49.6	50.2	50.4	50.6	50.7	50.8
Agriculture	509	476	502	627	569	580	595	592	614
Nonagricultural industries	41,539	42,846	43,110	41,551	42,512	42,672	42,916	43,018	43,153
Unemployed	3,176	3,303	3,167	3,135	3,173	3,027	2,952	3,161	3,128
Unemployment rate	7.0	7.1	6.8	6.9	6.9	6.5	6.4	6.8	6.7
Both sexes, 16 to 19 years									
Civilian noninstitutional population	14,931	14,610	14,600	14,931	14,598	14,575	14,557	14,610	14,600
Civilian labor force	7,181	7,277	7,256	8,039	7,834	7,801	7,870	8,072	8,129
Participation rate	48.1	49.8	49.7	53.8	53.7	53.5	54.1	55.2	55.7
Employed	5,693	5,840	5,898	6,477	6,176	6,411	6,390	6,567	6,630
Employment-population ratio ²	38.1	40.0	40.0	43.4	43.7	44.0	43.9	44.8	45.4
Agriculture	192	181	208	118	266	320	296	311	364
Nonagricultural industries	5,501	5,659	5,690	6,159	6,110	6,091	6,094	6,256	6,266
Unemployed	1,488	1,437	1,358	1,562	1,658	1,390	1,480	1,505	1,499
Unemployment rate	20.7	19.7	19.5	19.4	18.7	17.8	18.8	18.9	18.4

¹ The population figures are not adjusted for seasonal variation; therefore, identical numbers appear in the unadjusted and seasonally adjusted columns.² Civilian employment as a percent of the civilian noninstitutional population.

HOUSEHOLD DATA

HOUSEHOLD DATA

Table A-3. Employment status of the civilian population by race, sex, age, and Hispanic origin

(Numbers in thousands)

Employment status, race, sex, age, and Hispanic origin	Not seasonally adjusted			Seasonally adjusted ¹					
	Feb. 1994	Jan. 1995	Feb. 1995	Feb. 1994	Oct. 1994	Nov. 1994	Dec. 1994	Jan. 1995	Feb. 1995
WHITE									
Civilian noninstitutional population	152,079	151,103	151,191	152,079	152,605	152,659	152,734	153,103	153,191
Civilian labor force	94,971	94,333	94,462	94,121	94,631	94,630	94,065	94,496	94,711
Participation rate	62.5	62.4	62.5	62.5	62.6	62.6	62.6	62.6	62.5
Employed	89,724	89,250	89,746	89,494	90,407	90,587	90,884	91,124	91,552
Employment-population ratio ²	59.0	59.1	59.4	59.2	59.6	59.6	59.6	60.0	60.1
Unemployed	7,249	7,084	6,717	6,627	6,224	6,043	6,181	6,372	6,159
Unemployment rate	7.5	7.2	6.8	6.8	6.3	6.1	6.2	6.4	6.3
Men, 20 years and over									
Civilian labor force	51,916	52,132	52,299	52,289	52,508	52,586	52,695	52,727	53,250
Participation rate	78.2	78.0	77.9	78.8	78.6	78.7	78.8	78.6	78.6
Employed	48,166	48,662	48,959	49,098	49,667	49,745	49,840	49,808	49,907
Employment-population ratio ²	72.5	72.9	73.0	74.0	74.4	74.5	74.5	74.5	74.4
Unemployed	3,750	3,470	3,340	3,191	2,841	2,841	2,855	2,919	2,843
Unemployment rate	7.2	6.6	6.4	6.1	5.4	5.4	5.4	5.5	5.4
Women, 20 years and over									
Civilian labor force	38,678	39,666	39,876	38,755	39,271	39,337	39,474	39,790	39,975
Participation rate	52.3	53.6	53.7	51.4	53.2	53.2	53.4	53.7	53.9
Employed	36,356	37,178	37,530	36,484	36,479	37,063	37,259	37,440	37,691
Employment-population ratio ²	49.6	50.2	50.6	49.7	50.1	50.2	50.4	50.6	50.8
Unemployed	2,322	2,487	2,346	2,269	2,292	2,174	2,175	2,348	2,284
Unemployment rate	6.0	6.3	5.8	5.9	5.8	5.5	5.5	5.4	5.6
Both sexes, 16 to 19 years									
Civilian labor force	6,378	6,136	6,317	7,079	6,852	6,807	6,876	6,981	7,036
Participation rate	11.4	12.8	12.4	12.9	12.6	12.6	12.6	12.6	12.6
Employed	5,202	5,250	5,259	5,912	5,761	5,778	5,785	5,876	5,964
Employment-population ratio ²	42.2	43.8	43.9	48.0	47.8	48.1	48.2	49.0	49.8
Unemployed	1,176	1,086	1,058	1,167	1,091	1,029	1,091	1,105	1,072
Unemployment rate	18.4	17.1	17.0	16.5	15.9	15.1	15.9	15.8	15.2
Men	19.8	18.8	18.6	16.8	16.2	16.7	16.7	15.9	15.0
Women	17.2	15.4	14.1	16.1	15.2	14.9	15.5	15.8	13.4
BLACK									
Civilian noninstitutional population	19,222	19,518	19,542	19,222	19,449	19,481	19,513	19,518	19,542
Civilian labor force	11,855	12,062	12,074	11,890	12,208	12,276	12,106	12,315	12,309
Participation rate	61.8	61.8	61.8	62.4	62.8	63.0	62.1	63.1	62.5
Employed	8,752	8,755	8,755	8,755	8,755	8,755	8,755	8,755	8,755
Employment-population ratio ²	45.5	44.9	44.8	45.6	45.0	45.0	44.9	44.9	44.8
Unemployed	1,809	1,807	1,319	1,319	1,319	1,319	1,319	1,319	1,319
Unemployment rate	16.3	15.0	16.1	16.5	15.3	15.1	15.0	14.9	16.1
Men, 20 years and over									
Civilian labor force	5,630	5,638	5,680	5,685	5,739	5,729	5,762	5,699	5,715
Participation rate	74.8	73.6	74.1	75.5	75.0	74.7	74.9	74.4	74.8
Employed	4,770	4,864	4,828	4,854	4,970	4,988	4,988	4,973	4,907
Employment-population ratio ²	63.4	63.5	62.9	64.9	64.9	65.1	65.0	64.9	64.0
Unemployed	860	774	852	831	769	741	774	726	808
Unemployment rate	15.3	13.7	15.0	14.4	13.4	12.8	13.3	12.7	14.4
Women, 20 years and over									
Civilian labor force	5,354	5,630	5,634	5,197	5,401	5,794	5,793	5,794	5,611
Participation rate	59.3	58.4	58.1	56.8	59.0	59.0	58.8	59.0	58.5
Employed	4,598	4,932	4,861	4,620	4,851	4,932	4,977	4,977	4,881
Employment-population ratio ²	48.4	50.9	50.1	48.6	50.3	51.0	51.4	51.4	50.3
Unemployed	756	718	773	777	750	752	756	756	730
Unemployment rate	14.2	12.7	13.7	14.9	13.4	13.5	12.7	12.8	13.9
Both sexes, 16 to 19 years									
Civilian labor force	669	754	760	808	868	843	841	907	902
Participation rate	30.8	35.8	35.0	36.9	40.5	39.4	39.4	41.7	41.4
Employed	364	458	462	454	519	499	497	525	514
Employment-population ratio ²	17.6	21.0	20.3	20.8	24.2	23.2	22.8	24.1	23.7
Unemployed	285	315	317	354	349	343	354	382	390
Unemployment rate	42.6	40.9	41.8	43.8	40.2	41.2	42.1	42.1	41.1
Men	48.4	44.9	42.3	46.0	43.8	42.0	43.8	45.3	47.1
Women	36.1	36.0	41.3	41.4	36.2	40.2	40.1	38.5	45.3
HISPANIC ORIGIN									
Civilian noninstitutional population	11,074	11,363	11,394	11,074	11,270	11,301	11,332	11,363	11,394
Civilian labor force	6,946	7,192	7,266	7,018	7,384	7,394	7,472	7,555	7,530
Participation rate	61.0	61.3	61.6	61.6	61.6	61.6	61.6	61.6	61.6
Employed	6,153	6,387	6,475	6,283	6,574	6,536	6,698	6,487	6,671
Employment-population ratio ²	55.4	55.9	56.8	57.1	58.3	58.7	59.1	57.1	58.1
Unemployed	794	805	791	735	810	758	774	768	759
Unemployment rate	11.4	11.6	10.6	10.3	11.0	10.3	10.4	10.6	9.7

¹ The population figures are not adjusted for seasonal variation; therefore, identical numbers appear in the unadjusted and seasonally adjusted columns.

² Civilian employment as a percent of the civilian noninstitutional population.

NOTE: Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

HOUSEHOLD DATA

HOUSEHOLD DATA

Table A-4. Selected employment indicators

(Numbers in thousands)

Category	Not seasonally adjusted			Seasonally adjusted					
	Feb., 1994	Jan., 1995	Feb., 1995	Feb., 1994	Oct., 1994	Nov., 1994	Dec., 1994	Jan., 1995	Feb., 1995
CHARACTERISTIC									
Civilian employed, 16 years and over	101,961	104,744	104,690	103,884	105,428	105,497	106,773	106,161	106,440
Married men, spouse present	98,200	98,828	98,727	98,459	99,044	99,137	99,447	99,440	99,387
Married women, spouse present	25,187	25,808	25,764	25,234	25,497	25,590	26,122	26,497	26,108
Women who maintain families	10,109	10,245	9,947	10,379	10,308	10,184	10,106	10,180	10,104
MAJOR INDUSTRY AND CLASS OF WORKER									
Agriculture									
Wage and salary workers	1,270	1,267	1,323	1,547	1,511	1,553	1,743	1,790	1,677
Self-employed workers	1,424	1,401	1,147	1,598	1,487	1,755	1,638	1,731	1,603
Unpaid family workers	140	141	144	210	147	204	212	277	267
Nonagricultural industries									
Wage and salary workers	91,000	93,555	93,975	92,337	95,517	94,942	96,775	96,764	97,153
Government	14,077	15,448	15,329	15,773	15,997	15,785	15,889	16,134	16,119
Private industries	76,923	78,107	78,646	76,564	79,519	79,157	80,886	80,630	81,034
Private households	1,104	1,113	1,218	1,245	1,271	1,228	1,403	1,472	1,376
Other industries	75,819	76,994	77,428	75,319	78,248	77,929	79,483	79,158	79,658
Self-employed workers	7,731	7,647	7,581	7,871	7,793	7,927	8,194	8,188	8,081
Unpaid family workers	243	274	301	331	314	357	387	443	420
PERSONS AT WORK PART TIME									
All industries									
Part time for economic reasons	5,424	5,400	5,244	5,957	5,730	5,473	5,834	5,839	5,738
Slack work	2,411	2,199	2,409	2,599	2,514	2,449	2,656	2,611	2,612
Could only find part time work	7,798	7,981	7,457	8,132	7,848	7,851	7,481	7,448	7,480
Voluntary part time	11,713	11,206	10,379	13,001	11,706	11,147	13,219	11,655	11,647
Nonagricultural industries									
Part time for economic reasons	5,434	5,494	5,234	5,997	5,493	5,418	5,906	5,889	5,733
Slack work	2,472	2,479	2,219	2,554	2,381	2,319	2,677	2,700	2,687
Could only find part time work	7,240	7,140	7,220	7,912	7,420	7,297	7,193	7,129	7,111
Voluntary part time	11,740	11,132	10,433	13,467	12,474	12,170	12,774	12,407	12,171

* Excludes persons with a job but not at work during the survey period for such reasons as vacation, illness, or industrial dispute.

Table A-5. Range of unemployment measures based on varying definitions of unemployment and the labor force, seasonally adjusted

(Percent)

Measure	Quarterly averages					Monthly data		
	1993	1994	1994	1994	1994	1994	1994	1994
U-1 Persons unemployed 15 weeks or longer as a percent of the civilian labor force	7.0	7.1	7.1	7.1	7.0	7.0	7.0	7.0
U-2 Job losers as a percent of the civilian labor force	6.7	6.7	6.6	6.4	6.7	6.6	6.6	6.7
U-3 Unemployed persons 25 years and over as a percent of the civilian labor force	6.6	6.3	6.4	6.2	6.6	6.5	6.8	6.6
U-4 Unemployed full-time jobseekers as a percent of the full-time civilian labor force	6.1	6.6	6.7	6.1	6.0	6.1	6.1	6.1
U-5a Total unemployed as a percent of the labor force, including the resident Armed Forces	6.9	7.2	7.2	7.3	7.1	7.1	7.1	7.2
U-5b Total unemployed as a percent of the civilian labor force	6.1	6.4	6.5	6.4	6.2	6.2	6.3	6.3
U-6 Total full-time jobseekers plus 1/2 part-time jobseekers plus 1/2 total on part time for economic reasons as a percent of the civilian labor force less 1/2 of the part-time labor force	11.3	10.5	10.3	10.0	9.8	9.8	9.9	9.9
U-7 Total full-time jobseekers plus 1/2 part-time jobseekers plus 1/2 total on part time for economic reasons plus discouraged workers as a percent of the civilian labor force plus discouraged workers less 1/2 of the part-time labor force	9.5	11.7	11.1	11.0	10.9	9.4	9.4	9.4

(*) Not available

NOTE: Data for U-6 and U-7 for 1994 and earlier years have been revised.

HOUSEHOLD DATA

Table A-6. Selected unemployment indicators, seasonally adjusted

Category	Number of unemployed persons (in thousands)			Unemployment rates ¹					
	Feb. 1984	Jan. 1985	Feb. 1985	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
CHARACTERISTIC									
Total, 16 years and over	8,834	8,484	8,389	7.8	7.3	7.1	7.2	7.4	7.3
Men, 16 years and over	4,988	4,809	4,592	7.8	7.1	7.0	7.1	7.2	7.1
Men, 20 years and over	4,139	3,798	3,774	7.0	6.2	6.2	6.3	6.3	6.3
Women, 16 years and over	3,846	3,675	3,807	7.9	7.7	7.3	7.2	7.7	7.5
Women, 20 years and over	3,155	3,161	3,126	6.9	6.9	6.5	6.4	6.8	6.7
Both sexes, 16 to 19 years	1,562	1,575	1,499	19.4	18.7	17.8	18.8	18.3	18.4
Married men, spouse present	1,989	1,888	1,827	4.9	4.5	4.6	4.4	4.6	4.4
Married woman, spouse present	1,589	1,578	1,478	5.9	5.7	5.4	5.4	5.7	5.4
Woman who maintain families	652	622	625	19.8	18.4	16.8	16.8	18.0	17.0
Full-time workers	3,321	3,463	3,954	7.6	7.1	6.9	6.9	7.1	7.1
Part-time workers	1,486	1,512	1,418	9.4	9.1	8.6	8.6	9.4	8.7
Labor force time lost ²	--	--	--	9.0	8.5	8.2	8.3	8.2	8.2
INDUSTRY									
Nonagricultural private wage and salary workers	6,493	6,228	6,266	7.8	7.2	7.2	7.2	7.3	7.3
Mining	123	87	102	11.8	10.5	11.7	10.7	10.1	10.9
Construction	858	790	775	14.9	13.7	14.2	13.7	13.9	13.4
Manufacturing	1,680	1,688	1,683	7.7	7.3	7.2	7.2	7.6	7.5
Durable goods	967	969	951	7.5	6.9	7.0	7.1	7.1	7.1
Nondurable goods	713	720	732	8.0	7.8	7.4	7.2	8.1	8.3
Transportation and public utilities	348	296	333	5.9	5.3	5.2	5.0	6.9	5.5
Wholesale and retail trade	1,774	1,695	1,695	8.3	7.9	7.6	7.5	7.7	7.7
Finance and service industries	1,710	1,661	1,618	6.3	5.7	5.8	5.9	5.9	5.7
Government workers	749	685	649	4.5	4.4	4.3	4.4	4.1	3.8
Agricultural wage and salary workers	254	293	254	14.1	13.7	13.2	12.7	13.5	13.6

¹ Unemployment as a percent of the civilian labor force² Aggregate hours lost by the unemployed and persons on part time for economic

reasons as a percent of potentially available labor force hours

Table A-7. Duration of unemployment

(Numbers in thousands)

Weeks of unemployment	Not seasonally adjusted			Seasonally adjusted					
	Feb. 1984	Jan. 1985	Feb. 1985	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
DURATION									
Less than 5 weeks	1,157	1,995	3,111	1,159	1,895	1,357	1,292	1,662	3,534
5 to 14 weeks	2,986	2,770	2,963	2,482	2,406	2,124	1,516	2,552	2,689
15 weeks and over	1,264	2,416	2,426	3,002	3,577	5,428	2,374	2,243	2,416
27 weeks and over	1,310	1,357	1,199	1,172	1,082	590	972	941	1,036
Average (mean) duration, in weeks	19.2	15.3	14.0	19.0	18.7	17.4	17.3	15.3	15.9
Median duration, in weeks	9.3	6.6	7.9	8.4	7.3	7.3	7.4	6.7	7.2
PERCENT DISTRIBUTION									
Total unemployed	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than 5 weeks	13.6	23.7	37.2	13.6	18.9	13.4	12.7	19.3	41.8
5 to 14 weeks	33.7	32.8	35.3	28.1	24.9	21.7	15.2	25.2	29.4
15 weeks and over	14.7	28.5	28.5	33.9	30.3	30.0	29.1	26.5	28.7
27 weeks and over	15.4	11.8	11.4	13.3	13.1	17.2	11.9	11.1	12.8
	20.3	19.9	15.7	20.7	17.2	17.3	17.2	15.4	15.9

HOUSEHOLD DATA

HOUSEHOLD DATA

Table A-8. Reason for unemployment

(Numbers in thousands)

Reason	Not seasonally adjusted			Seasonally adjusted					
	Feb. 1984	Jan. 1985	Feb. 1985	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
NUMBER OF UNEMPLOYED									
Job losers	5,471	5,033	4,497	4,739	4,261	4,141	4,176	4,333	4,251
On layoff	1,613	1,602	1,571	1,271	1,151	1,069	1,070	1,229	1,240
Other job losers	3,858	3,431	2,926	3,468	3,110	3,072	3,106	3,104	3,011
Job leavers	797	917	866	829	829	858	858	864	865
Reentrants	2,148	2,100	2,229	2,171	2,150	2,141	2,218	2,244	2,255
New entrants	481	481	510	1,102	1,040	1,024	1,011	1,049	1,035
PERCENT DISTRIBUTION									
Total unemployed	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Job losers	54.7	50.3	45.0	47.4	42.6	41.4	41.8	43.3	42.5
On layoff	16.1	16.0	15.7	12.7	11.5	10.7	10.7	12.3	12.4
Other job losers	38.6	34.3	29.3	34.7	31.1	30.7	31.1	31.0	30.1
Job leavers	7.9	9.2	8.7	8.3	8.3	8.6	8.6	8.6	8.7
Reentrants	21.5	21.0	22.3	21.7	21.5	21.4	22.2	22.4	22.5
New entrants	4.8	4.8	5.1	11.0	10.4	10.2	10.1	10.5	10.3
UNEMPLOYED AS A PERCENT OF THE CIVILIAN LABOR FORCE									
Job losers	3.9	3.5	3.1	3.2	2.9	2.8	2.8	2.9	2.8
On layoff	1.1	1.1	1.1	0.9	0.8	0.8	0.8	0.9	0.9
Other job losers	2.8	2.4	2.0	2.3	2.1	2.0	2.0	2.1	2.0
Job leavers	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Reentrants	1.5	1.5	1.6	1.4	1.4	1.4	1.5	1.5	1.5
New entrants	0.3	0.3	0.3	0.7	0.6	0.6	0.6	0.6	0.6

Table A-9. Unemployed persons by sex and age, seasonally adjusted

Sex and age	Number of unemployed persons (in thousands)			Unemployment rates ^a					
	Feb. 1984	Jan. 1985	Feb. 1985	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
Total, 16 years and over	8,436	8,484	8,199	7.8	7.3	7.1	7.2	7.4	7.5
16 to 24 years	3,478	3,251	2,281	14.7	13.5	13.2	13.5	13.6	13.7
16 to 19 years	1,562	1,523	1,498	18.9	18.7	17.8	18.8	18.9	18.4
20 to 24 years	1,916	1,728	783	22.1	20.2	20.0	21.0	21.2	20.0
25 years and over	4,958	5,233	5,918	6.1	5.2	5.5	5.5	5.8	5.6
25 to 54 years	4,737	4,606	4,519	6.4	5.9	5.8	5.8	6.1	5.9
55 years and over	221	627	399	4.4	4.7	4.4	4.1	4.2	4.9
Men, 16 years and over	4,968	4,609	4,592	7.8	7.1	7.0	7.1	7.2	7.1
16 to 24 years	1,871	1,745	1,806	14.7	13.8	13.7	14.1	13.8	14.4
16 to 19 years	829	811	818	18.9	18.8	18.9	18.4	18.1	18.5
20 to 24 years	1,042	854	388	22.2	21.3	20.3	19.8	21.2	20.7
25 years and over	3,096	3,858	2,784	6.1	5.4	5.4	5.4	5.5	5.4
25 to 54 years	2,873	2,684	2,418	6.4	5.6	5.6	5.6	5.8	5.6
55 years and over	225	174	366	4.6	4.7	4.7	4.4	4.3	4.0
Women, 16 years and over	3,468	3,875	3,607	7.9	7.7	7.3	7.2	7.7	7.9
16 to 24 years	1,607	1,506	1,475	13.8	13.2	12.6	12.8	13.3	12.9
16 to 19 years	733	714	680	18.9	17.4	16.6	18.1	18.0	17.3
20 to 24 years	874	874	395	22.1	19.0	19.7	22.3	21.2	19.4
25 years and over	1,791	2,161	2,189	6.5	5.5	5.7	5.6	6.1	5.9
25 to 54 years	1,864	2,122	2,100	6.5	5.2	5.1	5.0	5.4	5.3
55 years and over	221	229	279	4.1	4.8	3.9	3.7	4.2	3.8

^a Unemployment as a percent of the civilian labor force.

HOUSEHOLD DATA

HOUSEHOLD DATA

Table A-10. Employment status of black and other workers

(Numbers in thousands)

Employment status	Not seasonally adjusted			Seasonally adjusted ¹					
	Feb. 1984	Jan. 1985	Feb. 1985	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
Civilian noninstitutional population	23,600	24,282	24,325	23,600	24,351	24,477	24,572	24,282	24,325
Civilian labor force	14,397	15,162	15,130	14,517	15,404	15,468	15,540	15,415	15,162
Participation rate	61.0	62.4	62.2	61.4	63.3	63.2	63.2	63.5	63.1
Employed	12,237	13,055	12,942	12,418	13,285	13,356	13,420	13,310	13,125
Employment-population ratio ²	51.4	53.8	53.2	52.6	54.6	54.6	54.6	54.8	54.0
Unemployed	2,159	2,087	2,189	2,100	2,119	2,112	2,120	2,105	2,236
Unemployment rate	15.0	13.8	14.5	14.5	13.8	13.7	13.6	13.7	14.6
Not in labor force	9,204	9,140	9,195	9,083	8,947	9,009	9,032	8,867	9,164

¹ The population figures are not adjusted for seasonal variation; therefore, identical numbers appear in the unadjusted and seasonally adjusted columns.

² Civilian employment as a percent of the civilian noninstitutional population.

Table A-11. Occupational status of the employed and unemployed, not seasonally adjusted

(Numbers in thousands)

Occupation	Civilian employed		Unemployed		Unemployment rate	
	Feb. 1984	Feb. 1985	Feb. 1984	Feb. 1985	Feb. 1984	Feb. 1985
Total, 16 years and over ¹	101,961	104,690	9,407	8,902	8.4	7.8
Managerial and professional specialty	24,713	25,693	664	603	2.7	2.3
Executive, administrative, and managerial	11,329	11,987	344	345	3.0	2.8
Professional specialty	13,384	13,706	340	257	2.5	1.8
Technical, sales, and administrative support	31,729	32,739	1,893	1,775	5.6	5.1
Technicians and related support	3,117	3,202	113	112	3.5	3.4
Sales occupations	11,944	12,344	787	761	6.2	5.8
Administrative support, including clerical	16,668	17,193	993	902	5.6	5.0
Service occupations	13,861	14,257	1,456	1,388	9.5	8.9
Private household	989	1,030	73	60	6.8	5.5
Protective service	1,673	1,652	108	92	6.1	5.2
Service, except private household and protective	11,199	11,575	1,276	1,236	10.2	9.4
Precision production, craft, and repair	12,557	12,842	1,391	1,258	10.0	8.9
Mechanics and repairers	4,112	4,414	112	265	6.8	5.7
Construction trades	4,140	4,395	746	698	15.3	13.7
Other precision production, craft, and repair	4,104	4,033	333	296	7.5	6.9
Operators, fabricators, and laborers	16,190	16,258	2,568	2,457	13.7	13.1
Machine operators, assemblers, and inspectors	7,825	7,815	1,052	1,071	11.6	12.1
Transportation and material moving occupations	4,270	4,478	541	533	11.2	10.6
Handlers, equipment cleaners, helpers, and laborers	4,095	3,965	975	853	14.2	17.7
Construction laborers	589	532	268	227	33.5	24.9
Other handlers, equipment cleaners, helpers, and laborers	3,506	3,433	677	626	16.2	15.4
Farming, forestry, and fishing	2,912	2,901	379	426	11.5	12.8

¹ Persons with no previous work experience and those whose last job was in the Armed Forces are included in the unemployed total.

HOUSEHOLD DATA

HOUSEHOLD DATA

Table A-12. Employment status of male Vietnam-era veterans and nonveterans by age, not seasonally adjusted

(Numbers in thousands)

Veteran status and age	Civilian noninstitutional population	Civilian labor force									
		Total	Employed	Unemployed							
				Number		Percent of labor force					
				Feb. 1964	Feb. 1967	Feb. 1964	Feb. 1967	Feb. 1964	Feb. 1967		
VIETNAM-ERA VETERANS											
Total, 30 years and over		7,191	7,580	6,886	7,084	6,434	6,668	280	416	7.0	5.4
30 to 34 years		6,384	6,511	6,150	6,261	5,706	5,869	455	374	7.2	5.9
35 to 39 years		1,891	1,887	1,797	1,621	1,617	1,300	180	173	10.0	10.9
40 to 44 years		1,194	1,194	1,109	1,258	2,927	1,084	181	169	6.2	6.2
45 years and over		1,794	1,885	1,744	1,982	1,167	1,490	79	82	6.2	4.1
		98.7	1,00.0	736	861	70.0	796	18	47	6.9	5.0
NONVETERANS											
Total, 30 to 44 years		15,865	16,870	15,609	15,956	14,030	14,954	979	892	6.9	6.2
30 to 34 years		14,172	14,767	14,172	14,103	12,256	13,493	511	410	3.6	2.9
35 to 39 years		4,664	4,807	4,417	4,518	4,157	4,280	260	238	5.6	5.3
40 to 44 years		4,029	4,296	3,820	4,025	3,617	3,781	206	264	5.6	6.1

NOTE: Male Vietnam-era veterans are men who served in the Armed Forces between August 5, 1964 and May 7, 1975. Nonveterans are men who have never served in the Armed Forces; published data are limited to those 30 to 44 years of age; the group that most closely corresponds to the bulk of the Vietnam-era veteran population.

Data for 25- to 29-year-old veterans are no longer shown in this table because the group is rapidly disappearing into the 30-34 age category and the numbers remaining for some labor force categories are not large enough to warrant their continued publication.

HOUSEHOLD DATA

HOUSEHOLD DATA

Table A-13. Employment status of the civilian population for eleven large States

(Numbers in thousands)

State and employment status	Not seasonally adjusted ¹			Seasonally adjusted ²					
	Feb. 1984	Dec. 1985	Feb. 1985	Feb. 1984	Dec. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
California									
Civilian noninstitutional population	18,886	19,161	19,182	18,886	19,086	19,111	19,117	19,161	19,182
Civilian labor force	12,228	12,761	12,711	12,316	12,823	12,609	12,635	12,815	12,803
Employed	11,154	11,738	11,769	11,331	11,680	11,666	11,734	11,886	11,950
Unemployed	1,075	1,024	944	985	943	923	901	930	853
Unemployment rate	8.8	8.0	7.4	8.0	7.5	7.3	7.1	7.3	6.7
Florida									
Civilian noninstitutional population	8,516	8,691	8,706	8,516	8,644	8,660	8,676	8,691	8,706
Civilian labor force	5,017	5,237	5,246	5,090	5,104	5,121	5,170	5,111	5,122
Employed	4,709	4,895	4,940	4,765	4,783	4,823	4,868	4,961	4,989
Unemployed	308	342	305	325	321	298	302	150	133
Unemployment rate	6.1	6.5	5.8	6.4	6.3	5.8	5.8	6.2	6.1
Illinois									
Civilian noninstitutional population	8,546	8,634	8,636	8,593	8,625	8,628	8,631	8,634	8,636
Civilian labor force	5,554	5,631	5,573	5,595	5,645	5,641	5,673	5,681	5,611
Employed	4,994	5,077	5,050	5,061	5,122	5,155	5,173	5,166	5,115
Unemployed	559	555	523	534	523	486	500	516	496
Unemployment rate	10.1	9.8	9.4	9.5	9.3	8.6	8.8	9.1	8.6
Massachusetts									
Civilian noninstitutional population	4,499	4,544	4,547	4,499	4,532	4,536	4,540	4,544	4,547
Civilian labor force	3,985	3,919	3,939	3,939	3,949	3,958	3,961	3,937	3,995
Employed	2,794	2,882	2,906	2,868	2,931	2,928	2,930	2,933	2,980
Unemployed	119	138	133	171	118	130	131	105	115
Unemployment rate	6.3	4.6	4.4	5.6	3.9	4.3	4.3	3.4	3.7
Michigan									
Civilian noninstitutional population	6,741	6,794	6,798	6,741	6,760	6,785	6,790	6,794	6,798
Civilian labor force	4,250	4,109	4,120	4,311	4,195	4,214	4,384	4,396	4,393
Employed	3,714	3,790	3,888	3,816	3,924	3,918	3,918	3,913	3,990
Unemployed	536	520	441	495	479	496	466	484	403
Unemployment rate	12.6	12.1	10.2	11.5	10.9	11.1	10.6	11.0	9.2
New Jersey									
Civilian noninstitutional population	5,817	5,873	5,877	5,817	5,858	5,863	5,868	5,873	5,877
Civilian labor force	3,786	3,780	3,824	3,832	3,816	3,783	3,794	3,818	3,869
Employed	3,531	3,526	3,571	3,588	3,591	3,562	3,575	3,583	3,627
Unemployed	255	253	253	244	225	221	219	234	242
Unemployment rate	6.7	6.7	6.6	6.4	5.9	5.8	5.8	6.1	6.3
New York									
Civilian noninstitutional population	13,599	13,680	13,685	13,599	13,658	13,666	13,674	13,680	13,685
Civilian labor force	7,489	8,179	8,088	7,021	8,148	8,230	8,275	8,242	8,125
Employed	7,340	7,606	7,511	7,431	7,591	7,647	7,698	7,713	7,607
Unemployed	649	573	577	590	557	583	577	529	518
Unemployment rate	8.1	7.0	7.1	7.4	7.3	7.1	7.0	6.4	6.4
North Carolina									
Civilian noninstitutional population	4,539	4,621	4,626	4,539	4,599	4,606	4,614	4,621	4,626
Civilian labor force	(3)	2,989	3,022	(3)	(3)	(3)	(3)	3,050	3,063
Employed	(3)	2,786	2,820	(3)	(3)	(3)	(3)	2,844	2,878
Unemployed	(3)	203	201	(3)	(3)	(3)	(3)	206	185
Unemployment rate	(3)	7.1	6.7	(3)	(3)	(3)	(3)	6.8	6.0
Ohio									
Civilian noninstitutional population	8,045	8,072	8,073	8,045	8,065	8,067	8,070	8,072	8,073
Civilian labor force	4,922	5,022	5,001	5,061	5,137	5,137	5,139	5,139	5,142
Employed	4,423	4,568	4,556	4,598	4,555	4,557	4,564	4,597	4,711
Unemployed	499	454	445	463	482	480	467	433	431
Unemployment rate	10.1	9.0	8.3	9.5	9.4	9.6	9.1	8.4	8.7
Pennsylvania									
Civilian noninstitutional population	9,196	9,230	9,231	9,198	9,221	9,224	9,227	9,230	9,231
Civilian labor force	5,143	5,414	5,384	5,426	5,497	5,509	5,513	5,500	5,478
Employed	4,757	4,944	4,881	4,892	5,011	5,037	5,074	5,074	5,023
Unemployed	386	469	503	534	486	472	439	426	454
Unemployment rate	11.0	8.6	9.3	9.8	8.8	8.6	7.6	7.7	8.2
Texas									
Civilian noninstitutional population	11,590	11,520	11,530	11,590	11,494	11,496	11,509	11,520	11,530
Civilian labor force	7,582	7,755	7,827	7,633	7,927	7,883	7,937	7,822	7,880
Employed	7,115	7,219	7,274	7,193	7,476	7,431	7,461	7,314	7,359
Unemployed	468	536	553	440	451	452	476	508	521
Unemployment rate	6.2	6.9	7.1	5.7	5.7	5.7	6.0	6.5	6.9

¹ These are the official Bureau of Labor Statistics estimates used in the administration of Federal fund allocation programs.² The population figures are not adjusted for seasonal variation; therefore, identical numbers appear in the unadjusted and the seasonally adjusted columns.³ Official estimates for North Carolina prior to 1980 are not derived from the household survey. Consequently, seasonally adjusted data are not published. The unadjusted estimates are available upon request.

ESTABLISHMENT DATA

ESTABLISHMENT DATA

Table B-1. Employees on nonagricultural payrolls by industry

(In thousands)

Industry	Not seasonally adjusted				Seasonally adjusted					
	Feb. 1984	Dec. 1984	Jan. 1985	Feb. 1985	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985	Feb. 1985
Total	91,612	96,308	94,575	94,799	92,846	95,157	95,497	95,681	95,993	96,112
Total private	75,477	80,029	78,543	78,497	74,971	79,354	79,371	79,618	79,957	80,272
Goods-producing	21,919	25,149	24,686	24,504	24,577	25,380	25,123	25,258	25,332	25,199
Mining	964	1,000	948	974	978	1,012	1,009	1,000	995	984
Oil and gas extraction	637.2	648.9	642.2	633.2	607	583	648	646	639	633
Construction	3,774	4,412	4,124	4,001	4,226	4,332	4,396	4,457	4,532	4,480
General building contractors	1,033.7	1,151.6	1,090.0	1,055.0	1,111	1,140	1,146	1,159	1,187	1,171
Manufacturing	19,181	19,737	19,574	19,529	19,373	19,686	19,718	19,801	19,805	19,773
Production workers	13,163	13,506	13,367	13,339	13,326	13,497	13,505	13,571	13,575	13,503
Durable goods	11,339	11,735	11,713	11,678	11,440	11,752	11,776	11,834	11,840	11,785
Production workers	7,638	7,928	7,853	7,826	7,710	7,935	7,925	7,969	7,966	7,905
Lumber and wood products	575.9	638.6	684.1	677.0	706	719	713	717	714	707
Furniture and fixtures	475.9	478.9	495.8	497.7	480	487	492	495	497	493
Stone, clay, and glass products	576.3	602.5	586.6	580.0	604	606	606	612	613	604
Primary metal industries	873.2	849.1	855.6	854.6	877	894	865	859	860	858
Blast furnaces and basic steel products	313.9	313.2	315.2	316.5	340	320	320	318	318	319
Fabricated metal products	1,416.7	1,500.3	1,487.5	1,480.3	1,447	1,495	1,498	1,502	1,499	1,491
Machinery, except electrical	2,155.7	2,257.1	2,281.4	2,238.5	2,151	2,255	2,251	2,251	2,246	2,236
Electrical and electronic equipment	2,164.3	2,211.3	2,272.5	2,268.7	2,175	2,259	2,274	2,281	2,282	2,283
Transportation equipment	1,836.8	1,938.8	1,945.2	1,979.9	1,898	1,945	1,957	1,993	2,009	1,992
Motor vehicles and equipment	852.1	876.3	884.9	873.2	865	865	877	904	911	901
Instruments and related products	711.3	732.7	730.3	710.9	715	719	732	732	732	735
Miscellaneous manufacturing	379.5	336.4	373.6	369.0	387	390	389	390	386	377
Nondurable goods	7,342	7,912	7,861	7,851	7,933	7,934	7,942	7,967	7,965	7,943
Production workers	5,525	5,578	5,514	5,515	5,608	5,582	5,580	5,602	5,609	5,594
Food and kindred products	1,578.5	1,642.6	1,608.5	1,595.4	1,637	1,640	1,644	1,658	1,660	1,555
Tobacco manufactures	64.7	72.0	71.8	70.3	65	69	67	69	70	71
Textile mill products	752.2	729.3	721.7	715.4	767	735	711	727	728	720
Apparel and other textile products	1,239.7	1,176.3	1,166.4	1,172.2	1,213	1,170	1,184	1,145	1,175	1,175
Paper and allied products	674.3	684.3	680.7	680.0	680	684	683	684	685	686
Printing and publishing	1,333.3	1,394.1	1,388.5	1,391.1	1,333	1,353	1,354	1,384	1,399	1,391
Chemicals and allied products	1,344.8	1,014.3	1,056.3	1,056.0	1,054	1,065	1,066	1,068	1,064	1,063
Petroleum and coal products	186.1	182.3	180.1	179.2	190	185	185	184	184	181
Rubber and miscellaneous plastics products	777.1	807.3	803.3	806.3	784	794	795	814	813	814
Leather and leather products	207.0	199.3	184.1	184.7	210	193	192	191	187	189
Service-producing	53,558	54,880	53,859	53,995	48,369	50,077	50,374	50,423	50,661	50,916
Transportation and public utilities	5,331	5,276	5,181	5,187	5,105	5,225	5,226	5,249	5,257	5,264
Transportation	2,769	3,031	2,910	2,917	2,828	2,951	2,953	2,974	2,972	2,980
Communication and public utilities	2,562	2,245	2,271	2,270	2,276	2,274	2,273	2,275	2,285	2,284
Wholesale trade	5,389	5,688	5,626	5,634	5,438	5,512	5,521	5,641	5,669	5,686
Durable goods	3,171	3,328	3,326	3,335	3,193	3,321	3,317	3,328	3,343	3,359
Nondurable goods	2,218	2,360	2,300	2,299	2,245	2,191	2,206	2,313	2,326	2,327
Retail trade	15,517	17,238	16,457	16,318	15,980	16,468	16,644	16,626	16,708	16,835
General merchandise stores	2,140.2	2,652.8	2,424.8	2,320.0	2,211	2,334	2,391	2,331	2,463	2,499
Food stores	2,536.7	2,759.0	2,701.7	2,703.0	2,626	2,577	2,646	2,710	2,715	2,733
Automotive dealers and service stations	1,739.9	1,770.1	1,764.0	1,763.8	1,740	1,763	1,772	1,777	1,780	1,794
Eating and drinking places	4,664.6	5,289.3	5,086.5	5,117.3	5,121	5,290	5,303	5,327	5,356	5,387
Finance, insurance, and real estate	5,546	5,737	5,723	5,736	5,593	5,705	5,725	5,749	5,760	5,793
Finance	2,808	2,895	2,899	2,910	2,812	2,855	2,874	2,886	2,899	2,922
Insurance	1,737	1,733	1,762	1,766	1,741	1,774	1,778	1,785	1,786	1,790
Real estate	1,225	1,059	1,042	1,040	1,040	1,066	1,073	1,078	1,075	1,079
Services	20,075	21,011	20,870	21,118	20,278	20,964	21,030	21,095	21,231	21,111
Business services	3,783.4	4,180.1	4,167.4	4,174.4	3,845	4,119	4,142	4,151	4,218	4,242
Health services	6,021.5	6,129.0	6,121.5	6,126.9	6,080	6,297	6,104	6,115	6,140	6,152
Government	16,135	16,279	16,032	16,302	15,875	16,103	16,126	16,063	16,036	16,040
Federal	2,746	2,739	2,772	2,780	2,763	2,793	2,804	2,809	2,794	2,805
State	3,770	3,785	3,671	3,776	3,682	3,719	3,724	3,711	3,701	3,693
Local	9,619	9,755	9,589	9,746	9,430	9,691	9,600	9,543	9,541	9,542

p = preliminary.

r = revised.

Table B-2. Average weekly hours of production or nonsupervisory workers¹ on private nonagricultural payrolls by industry

Industry	Not seasonally adjusted				Seasonally adjusted					
	Feb. 1984	Oct. 1984	Jan. 1985 P	Feb. 1985 P	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985 P	Feb. 1985 P
Total private	35.0	35.5	36.9	36.7	35.3	35.1	35.2	35.3	35.2	35.2
Mining	42.9	44.2	42.9	42.6	(2)	(2)	(2)	(2)	(2)	(2)
Construction	37.0	37.5	36.7	36.1	(2)	(2)	(2)	(2)	(2)	(2)
Manufacturing	43.7	41.2	40.3	39.7	40.9	43.4	40.5	40.7	40.6	40.9
Overtime hours	1.4	1.3	1.2	1.1	1.5	1.3	1.4	1.4	1.3	1.3
Durable goods	41.4	42.1	41.1	40.4	41.7	41.3	41.2	41.4	41.4	40.6
Overtime hours	1.6	1.9	1.4	1.4	1.8	1.5	1.6	1.6	1.6	1.5
Lumber and wood products	39.6	39.8	39.8	38.1	40.4	39.7	39.5	40.0	39.9	38.5
Furniture and fixtures	39.1	40.5	39.3	38.6	39.9	39.6	39.8	39.6	40.4	39.4
Stone, clay, and glass products	41.5	41.7	40.5	40.2	42.5	41.8	41.8	41.7	41.6	41.1
Primary metal industries	42.0	41.6	41.3	40.7	42.0	41.3	41.5	41.2	41.0	40.7
Blast furnaces and basic steel products	41.2	39.3	39.6	40.0	41.3	40.1	40.8	39.7	39.7	40.0
Fabricated metal products	41.5	42.2	41.1	40.5	41.8	41.3	41.1	41.4	41.3	40.7
Machinery, except electrical	41.9	42.0	41.7	41.0	41.9	41.9	41.7	41.8	41.7	41.0
Electrical and electronic equipment	41.1	41.8	40.8	40.1	41.2	41.9	41.9	41.9	40.9	40.2
Transportation equipment	42.5	41.3	41.1	42.0	43.1	42.4	42.4	43.0	43.4	42.2
Motor vehicles and equipment	43.9	44.9	44.4	42.2	44.3	43.3	43.4	44.4	44.8	42.3
Instruments and related products	41.2	42.3	41.0	40.7	41.2	41.2	41.5	41.8	41.2	40.7
Miscellaneous manufacturing	38.6	38.9	38.6	38.7	(2)	(2)	(2)	(2)	(2)	(2)
Nondurable goods	38.6	38.3	39.2	38.7	39.9	39.3	39.4	39.6	39.5	39.3
Overtime hours	1.1	1.1	2.8	2.8	1.3	2.9	1.7	1.1	2.9	2.8
Food and kindred products	38.1	42.3	39.5	38.9	39.7	39.6	39.7	40.1	39.8	38.3
Tobacco manufactures	36.4	38.8	37.2	37.2	(2)	(2)	(2)	(2)	(2)	(2)
Textile mill products	42.6	38.4	38.8	38.4	40.8	38.7	39.0	39.2	39.1	38.6
Apparel and other textile products	31.7	35.4	35.6	35.2	36.9	35.9	36.0	36.4	36.1	35.4
Paper and allied products	42.9	41.8	42.9	42.0	43.2	41.9	43.2	43.1	41.8	42.1
Printing and publishing	37.6	38.4	37.4	37.2	37.9	37.9	37.9	37.7	37.8	37.6
Chemicals and allied products	42.0	42.3	41.9	41.5	42.1	41.6	41.7	41.9	42.0	41.5
Petroleum and coal products	43.5	42.9	43.2	42.7	44.5	43.5	43.5	42.9	41.8	41.7
Rubber and miscellaneous plastics products	42.0	42.0	41.7	40.4	(2)	(2)	(2)	(2)	(2)	(2)
Leather and leather products	35.8	37.1	36.2	36.4	37.2	36.4	36.4	36.9	36.8	36.9
Transportation and public utilities	38.0	38.5	39.1	39.2	39.3	39.1	39.4	39.2	39.4	39.5
Wholesale trade	38.2	38.4	38.4	38.3	38.5	38.6	38.6	38.6	38.6	38.6
Retail trade	29.4	29.5	29.3	29.2	29.9	29.9	29.9	30.1	30.0	29.8
Finance, insurance, and real estate	35.4	35.7	36.5	36.5	(2)	(2)	(2)	(2)	(2)	(2)
Services	32.6	32.8	32.5	32.6	32.7	32.7	32.7	32.8	32.7	32.8

¹ Data relate to production workers in mining and manufacturing; to construction workers in construction; and to nonsupervisory workers in transportation and public utilities, wholesale and retail trade, finance, insurance, and real estate, and services. These groups account for approximately four-fifths of the total employees on private nonagricultural payrolls.

² This series is not published seasonally adjusted since the seasonal component is small relative to the trend-cycle and/or irregular components and consequently cannot be separated with sufficient precision.

p = preliminary.

ESTABLISHMENT DATA

ESTABLISHMENT DATA

Table B-3. Average hourly and weekly earnings of production or nonsupervisory workers¹ on private nonagricultural payrolls by industry

Industry	Average hourly earnings				Average weekly earnings			
	Feb. 1984	Dec. 1984	Jan. 1985 p	Feb. 1985 p	Feb. 1984	Dec. 1984	Jan. 1985 p	Feb. 1985 p
Total private	\$8.24	\$8.46	\$8.50	\$8.51	\$288.40	\$300.33	\$296.45	\$295.30
Seasonally adjusted	8.23	8.47	8.45	8.49	292.52	298.99	297.94	297.15
Mining	11.47	11.68	11.77	11.78	402.92	514.49	506.93	501.61
Construction	11.97	12.17	12.20	12.23	443.63	457.59	442.86	441.50
Manufacturing	9.05	9.38	9.42	9.42	368.74	386.46	379.63	373.97
Durable goods	9.61	9.94	9.97	9.97	398.68	416.47	409.77	402.79
Lumber and wood products	7.88	8.04	8.05	8.07	311.62	319.99	312.34	307.47
Furniture and fixtures	6.75	7.01	7.04	7.04	261.93	284.61	276.67	271.74
Stone, clay, and glass products	9.33	9.57	9.69	9.73	389.27	403.24	392.45	391.15
Primary metal industries	11.40	11.84	11.52	11.62	482.58	475.90	472.32	472.93
Blast furnaces and basic steel products	13.10	12.95	13.10	13.30	519.72	516.71	518.76	522.00
Fabricated metal products	9.31	9.55	9.57	9.60	386.37	403.01	393.33	388.80
Machinery, except electrical	9.97	10.16	10.12	10.12	413.55	434.85	422.00	414.92
Electrical and electronic equipment	8.86	9.27	9.29	9.30	364.15	387.49	379.01	372.93
Transportation equipment	12.02	12.59	12.62	12.53	511.93	552.70	543.32	526.26
Motor vehicles and equipment	12.81	13.21	13.32	13.17	544.40	593.13	591.81	555.77
Instruments and related products	6.66	8.99	8.95	9.06	356.79	380.28	366.95	368.74
Miscellaneous manufacturing	6.97	7.12	7.21	7.22	275.91	284.59	279.75	279.41
Non-durable goods	8.24	8.55	8.60	8.60	326.30	341.15	337.12	332.82
Food and kindred products	4.37	4.48	4.48	4.50	127.27	143.44	134.96	130.65
Tobacco manufactures	11.11	10.97	11.15	11.33	405.13	425.64	414.78	421.48
Textile mill products	6.40	6.57	6.59	6.60	259.84	258.88	255.69	253.44
Apparel and other textile products	5.46	5.65	5.71	5.69	200.18	205.65	203.28	200.29
Paper and allied products	13.22	10.69	10.68	10.73	418.44	468.22	458.17	450.65
Printing and publishing	9.30	9.56	9.57	9.59	349.63	367.13	357.92	357.71
Chemicals and allied products	10.92	11.37	11.43	11.40	457.43	482.09	476.92	473.10
Petroleum and coal products	13.47	13.63	13.90	13.86	504.21	584.73	600.48	591.82
Rubber and miscellaneous plastics products	8.16	8.43	8.50	8.49	342.72	354.06	351.05	343.00
Leather and leather products	5.67	5.80	5.83	5.82	233.55	215.18	211.05	211.85
Transportation and public utilities	11.01	11.32	11.33	11.32	429.39	447.18	443.00	443.74
Wholesale trade	8.79	9.18	9.15	9.17	335.78	357.10	351.36	351.21
Retail trade	5.89	5.89	5.97	5.99	173.17	180.23	174.92	174.91
Finance, insurance, and real estate	7.54	7.78	7.78	7.83	271.45	285.53	283.97	285.89
Services	7.55	7.82	7.82	7.86	245.11	256.50	254.15	256.24

¹ See footnote 1, table B-2.

p = preliminary.

Table B-4. Hourly Earnings Index for production or nonsupervisory workers¹ on private nonagricultural payrolls by industry (1977 = 100)

Industry	Not seasonally adjusted					Seasonally adjusted				
	Feb. 1984	Dec. 1984	Jan. 1985 p	Feb. 1985 p	Percent change from: Feb. 1984	Feb. 1984	Dec. 1984	Jan. 1985 p	Feb. 1985 p	Percent change from: Jan. 1985
Total private nonfarm	158.8	163.2	163.5	164.0	3.1	158.5	161.3	162.0	163.1	0.6
Current dollars	95.0	94.9	95.0	N.A.	(2)	94.8	94.0	94.4	94.4	N.A.
Constant (1977) dollars	170.7	174.8	177.1	177.3	3.9	(4)	(4)	(4)	(4)	(3)
Mining	145.5	147.9	148.5	148.3	2.0	144.2	146.3	146.5	147.5	0.6
Construction	160.8	165.5	166.5	166.7	3.7	160.7	163.8	164.5	165.7	0.7
Manufacturing	160.3	164.9	164.9	165.1	3.0	159.8	163.0	163.1	164.3	0.6
Transportation and public utilities	162.7	169.6	169.0	169.4	4.1	(4)	(4)	(4)	(4)	(4)
Wholesale trade	153.4	154.1	155.0	155.8	1.6	152.9	153.9	155.1	156.5	0.9
Retail trade	164.0	164.8	164.4	164.6	0.4	(4)	(4)	(4)	(4)	(4)
Finance, insurance, and real estate	160.8	164.8	164.5	164.2	-0.2	159.8	164.0	164.8	164.9	0.0
Services	160.8	164.8	164.5	164.2	-0.2	159.8	164.0	164.8	164.9	0.0

¹ See footnote 1, table B-2.² Percent change is -0.5 percent from January 1981 to January 1984, the latest month available.³ Percent change is -0.4 percent from December 1984 to January 1985, the latest month available.⁴ These series are not shown if the seasonal component is small relative to the trend-cycle and/or irregular components and consequently cannot be separated with sufficient precision.

N.A. = not available.

p = preliminary.

ESTABLISHMENT DATA

ESTABLISHMENT DATA

Table B-5. Indexes of aggregate weekly hours of production or nonsupervisory workers' on private nonagricultural payrolls by industry

(1977 = 100)

Industry	Not seasonally adjusted				Seasonally adjusted				
	Feb. 1984	Dec. 1984	Jan. 1985 P	Feb. 1985 P	Feb. 1984	Oct. 1984	Nov. 1984	Dec. 1984	Jan. 1985 P
Total	107.4	116.1	111.2	110.6	110.9	113.2	114.0	114.6	114.8
Goods-producing	94.8	101.4	96.6	94.5	99.2	99.7	100.2	100.9	101.1
Mining	109.7	117.9	112.6	110.0	112.1	115.8	117.1	116.5	112.7
Construction	95.9	117.0	103.7	99.0	114.1	116.2	118.1	118.7	121.1
Manufacturing	93.9	97.6	94.5	92.9	95.7	95.7	95.9	96.8	96.7
Durable goods	92.9	98.0	94.8	92.9	94.4	95.9	95.9	96.9	96.8
Lumber and wood products	91.6	94.6	90.3	87.5	97.4	96.2	95.9	97.6	97.7
Furniture and fixtures	100.7	109.0	104.9	103.6	102.8	103.1	105.5	105.5	108.2
Stone, clay, and glass products	82.6	87.5	82.1	80.5	89.3	88.2	88.4	89.1	89.1
Primary metal industries	73.3	70.3	70.0	69.5	73.5	71.4	71.6	70.7	70.4
Blast furnaces and basic steel products	62.5	54.4	54.6	55.9	62.6	56.5	57.3	55.3	55.9
Fabricated metal products	89.0	95.5	92.0	90.2	90.4	92.8	92.8	93.8	93.4
Machinery, except electrical	92.7	99.8	96.4	94.7	92.3	97.9	96.9	97.4	96.6
Electrical and electronic equipment	110.4	116.9	113.5	111.1	111.2	114.7	115.0	114.9	114.3
Transportation equipment	95.0	101.7	98.5	96.4	95.9	95.8	96.1	96.9	101.7
Motor vehicles and equipment	89.6	96.7	93.9	88.0	92.3	88.4	89.7	97.0	99.0
Instruments and related products	107.9	112.9	108.8	107.9	109.8	109.3	110.7	111.2	109.6
Miscellaneous manufacturing	83.5	86.0	79.6	79.4	86.5	86.3	85.8	86.2	84.7
Non-durable goods	95.3	97.0	94.1	92.9	97.5	95.5	95.8	96.6	95.1
Food and kindred products	90.9	99.3	94.4	92.1	96.9	97.0	97.5	99.6	99.2
Tobacco manufactures	81.2	99.3	94.8	91.8	86.1	95.6	92.4	93.0	92.6
Textile mill products	83.8	77.5	75.6	74.0	84.8	76.7	76.7	76.8	74.9
Apparel and other textile products	93.6	89.9	87.3	86.8	94.4	89.0	89.2	90.9	90.0
Paper and allied products	97.8	101.3	98.9	97.3	99.4	99.5	99.8	99.9	100.3
Printing and publishing	113.1	121.2	117.4	117.6	114.1	118.2	118.9	118.0	118.8
Chemicals and allied products	95.6	98.7	94.9	93.9	96.3	95.5	95.4	95.8	95.7
Petroleum and coal products	83.5	82.2	82.7	82.8	88.8	85.3	85.3	83.4	86.7
Rubber and miscellaneous plastics products	111.1	115.2	112.3	110.6	112.5	112.9	114.5	114.9	114.4
Leather and leather products	78.9	71.9	68.3	69.0	81.2	72.2	71.8	72.3	71.2
Service-producing	114.3	124.2	119.3	119.5	117.4	120.7	121.6	122.1	122.3
Transportation and public utilities	100.7	107.4	104.3	104.5	103.1	105.2	106.1	106.1	106.6
Wholesale trade	110.6	117.9	115.8	115.5	112.0	116.2	116.3	116.8	117.4
Retail trade	107.8	120.4	109.8	108.3	109.4	111.8	113.6	114.1	114.2
Finance, insurance, and real estate	120.8	126.1	124.7	125.0	122.1	125.1	125.4	126.6	125.8
Services	128.0	135.0	132.6	134.4	129.9	134.2	134.8	135.4	135.7

See footnote 1, table B-2.

P = preliminary.

Table B-6. Indexes of diffusion: Percent of industries in which employment¹ increased

Time span	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Over 1 month span	1983.....	54.3	46.5	60.8	68.9	69.5	64.6	74.3	68.6	69.5	75.4	69.7	73.8
	1984.....	71.1	73.2	67.0	63.8	64.1	63.0	62.4	57.6	40.8	65.7	51.9	63.5
	1985.....	56.8p	47.3p										
Over 3 month span	1983.....	46.8	57.3	64.1	75.1	75.7	77.6	74.1	81.6	80.8	78.9	79.5	77.6
	1984.....	82.4	80.5	76.5	71.1	68.4	68.9	63.5	58.1	58.6	53.5	64.9	58.0p
	1985.....	57.3p											
Over 6 month span	1983.....	50.8	63.0	69.2	75.1	80.0	82.4	84.1	82.4	84.6	85.9	86.8	83.8
	1984.....	81.9	82.7	79.7	73.4	69.2	62.2	62.4	62.7	63.5	60.3p	52.2p	
	1985.....												
Over 12 month span	1983.....	49.5	54.3	61.9	71.1	77.3	79.5	85.8	88.1	86.8	87.3	85.4	87.3
	1984.....	86.5	81.9	78.9	76.8	74.3	73.8	71.9p	62.2p				
	1985.....												

¹ Number of employees, seasonally adjusted for 1, 3, and 6 month spans, on payrolls of 105 private nonagricultural industries.
P = preliminary.

NOTE: Figures are the percent of industries with employment rising (half of the unchanged components are counted as rising). Data are centered within the spans.

Representative OBEY. Thank you, Ms. Norwood.

Ms. Norwood, before I get into these numbers this morning, I'd like to bring up another subject, and that is the issue of your own budget. Frankly, I see a number of things in it that disturb me quite a bit.

My understanding is that the budget for your shop contains the following: A cutback in funding for the Monthly Labor Review; a reduction in the household survey; a rescission of the mass layoff report just mandated by the Congress and my other committee, the Appropriations Committee; a cut in funds available for improving the data of the services component of the economy, which is the one providing the largest increase in employment these days; and most seriously, a transfer of 17 positions in the area of personnel management from you to direct control of the Assistant Secretary for Management, which is a political appointee.

I would like to ask you a series of questions and I understand that you have to defend the administration's position, but I am asking for your best professional judgment—on a number of these issues.

Let me ask you first: Were any of those changes proposed by your Bureau, or suggested to the Department or the White House by your Bureau in the preparation of the 1986 budget?

Ms. NORWOOD. Mr. Chairman, as you're well aware, the budget goes through a whole series of iterations. I do want you to know that the final decisions about particular programs—that is, whether to take cuts in one program or another—were determined by me.

Representative OBEY. Did you initially ask for those changes?

Ms. NORWOOD. Well, I don't think many managers spend time trying to find things to reduce, but we all are quite aware of the fact that we have a deficit and that we've got to try to find ways to cut back.

Representative OBEY. I understand the rules, but the answer is that you did not initially request any of those changes?

Ms. NORWOOD. I'd rather pass on that.

Representative OBEY. Did you initially request transfer of the 17 positions to the Labor Department from your shop?

Ms. NORWOOD. No, sir, I did not. That's a somewhat different issue and I would like to state my position on it.

The fiscal 1986 budget of the Bureau of Labor Statistics, in the development of a governmentwide initiative, provides for increased efficiencies in administration of programs for a reduction, in our case, of six positions and \$240,000 in the personnel function, and the transfer of the remaining positions to the Department of Labor.

I support the reduction of the six positions and \$240,000. I have grave concerns, however, about the wisdom of the transfer of personnel authority for a statistical agency to the Department. We, in the Bureau of Labor Statistics, have a long history. If you go back 10, 15 years, this very committee held hearings that were related to personnel shifts.

I have expressed those concerns to Under Secretary Ford and I expressed them to the Senate Appropriations Committee at the hearing that we had.

This is not an issue of personalities. I want to underscore the fact that no one has been more supportive of the integrity of the Bureau than Secretary Donovan and Under Secretary Ford.

In this 101st year of the Bureau I am very concerned about where the Bureau will be 100 years from now, and I think we need to look at this in terms of the principle of how statistical agencies are handled.

Representative OBEY. I agree with that.

Let me ask in terms of your budget reductions first before I turn to that point.

Can you tell us that these reductions will provide in any way for an improvement in the quality of the statistics that you provide the Congress or the business community or others who study the economy from month to month?

Ms. NORWOOD. Well, Congressman, I think it is important to recognize that the BLS budget does continue to provide for some very important improvements.

We will be continuing to complete the redesign of the current population survey.

We will be continuing the modernization of our business establishment program, and we will be continuing the very important CPR revision program.

So there are instances and very important areas where we will be building up.

In the case of statistics on the services sector which you mentioned, there is, you are quite right, a cut, but there still remain some 20 positions and about \$1 million, which we intend to use particularly to look at some of the service sector issues in the wage area, where I think there is a great deal that we don't know very much about, and we would like very much to expand our employment cost index, and there are funds to do that in the budget. We also will be doing some work in prices and some work in productivity.

Representative OBEY. What is your estimate of the total amount of savings that would be achieved by these reductions?

Ms. NORWOOD. There is about \$750,000 removed from services. There is a cut for the dissemination of information of the Bureau in our information services in the field as well as in our printing budget. Our printing budget including the Monthly Labor Review has been cut severely, and that amounts to \$400,000 perhaps or \$500,000.

And we have had perhaps about \$12 million of cuts and then some increases. It is a strange kind of budget. You have to look at both sides of it.

Representative OBEY. I agree.

Let me just point out that if you are cutting back funding for the Monthly Labor Review, if you are cutting into the household survey operations, if you are reducing the funds available for improving the data in the service-related economy, my understanding is that those total reductions come to somewhat less than \$5 million.

Ms. NORWOOD. That is a lot of money for us.

Representative OBEY. I understand, and my concern is that the numbers that your shop produces are used to distribute a whole lot

more money around the country on the basis, we hope, of accurate estimates of situations around the country; just for the Job Training Partnership Act, \$1.9 billion, for instance.

So I would hope that we would see fit not to weaken in any way the accuracy of numbers used to distribute an amount of money that large.

Let me just say on the other subject that you raised, I regard the effort to transfer those 17 positions to the Labor Department as being at least potentially a serious threat to the longstanding tradition of your agency to maintain absolute objective independence and to be able to continue to call the numbers exactly as you see them rather than how politicians on either side of the political aisle might like to see them or shape them from time to time.

I just want to say for the record that I think it would be a severe impact on the public interest if we were to support that transfer.

If you take a look at the kind of job that has been done in your Bureau versus the kind of job that has been done in the Labor Department lately, I would suggest that there is quite a difference.

At this point, we do not have a confirmed Secretary who is on the job. We had for nearly 6 months a chief of staff who would not show up for work, and when I requested a report from the Department as to whether or not he was on leave, they refused to respond and the inspector general refused to provide me with a copy of the report that they prepared on that situation.

We have had a state of total chaos in the Labor Department, and now we are asked in the budget to move some of your people into one of the most chaotic departments in the Federal Government at this point. Frankly, I think it would be outrageous and a significant threat to the independence of your information, long term, were we to provide that.

I just want to make it clear, in my other capacity as a member of the Labor-HEW Appropriations Subcommittee, that I don't intend in any way to support that transfer. I think it would be outrageous if it were to occur.

Let me turn it over now to other members. Congressman Lungren.

Representative LUNGREN. Thank you, Mr. Chairman.

I know, Commissioner Norwood, that we all are looking month to month at these statistics to try to discern what they mean. I know a number of us have been concerned that with the rapid progress we made in terms of the unemployment rate that we have been on a plateau for some period of time. I would like to at least try and look into that a little bit.

As I understand it, the labor force growth in 1984 increased less than 2 percent, and in December and January, combined this year, the labor force rose by 800,000. It appears to me that this is a fairly large increase. Is there any particular reason we can divine out of the figures for that?

Ms. NORWOOD. I think what we are seeing is a pickup in labor force growth. I think we had a slowdown, of course, during the recession period. Labor force growth is picking up.

Women are again coming into the labor market. Particularly younger women are coming into the labor market in large numbers. Their labor force participation rates are above 70 percent.

That is extraordinarily high. I think it is going to continue, too; they are going to continue to be there and to increase in number.

We have had, of course, fewer young people, fewer teenagers because of lower birth rates. So there are fewer people growing up.

But during the course of the recovery, we have had really close to 4 percent labor force growth. That is pretty good, quite a lot.

Representative LUNGREN. Should we expect that what we have seen in the last couple of months will continue? Isn't this a little faster than the rate that we had for all of last year, on an average?

Ms. NORWOOD. Well, I think, as you know, Congressman Lungren, labor force growth tends to occur in spurts. We get a couple of months of high growth, and then we get a couple of months of flatness.

But I think that it is quite clear, to me at least, that we are going to have continuing increases in the labor force, particularly among women and minorities, which is going to make it more difficult to bring down the unemployment rate.

Representative LUNGREN. As I reviewed the data, it appeared that the labor force participation rate for adult men at least had been trending downward since the mid-1960's, at least until most recently.

How would you interpret current trends?

Ms. NORWOOD. Well, they seem to be coming along at about 78.2 or 78.3 percent and they have been holding pretty steady at that rate for some time. You are right, that is somewhat different from the long-term trend that has been kind of coming downward. That may pick up again as people retire somewhat earlier. But right now I think we are having a lot of people coming back into the labor force who had left the labor force during the period of recession.

Representative LUNGREN. So I guess what you are telling me is that both for men and women we are seeing higher participation rates which, in terms of numbers of unemployment and employment, give us new challenges. I mean, those are slightly different trends, to say the least, from what they were in the last decade, are they not?

Ms. NORWOOD. Well, they are different trends, certainly, from the early 1980's, when we had people react to the recession by leaving the labor force. They aren't going to go out looking for jobs if they don't think there are any jobs around.

In the 1970's we had people coming into the labor force in very large numbers. We are not yet at that sizable an increase, but I think during the 27 months of the recovery there has been a decided change, and you are quite right that that means that we have to create even more jobs in order to reduce the unemployment rate because there are more and more people who are coming into the labor force looking for work.

Representative LUNGREN. If we can go to one of the points that you made about the distinction between the service sector of the economy and the manufacturing sector. You indicated that we saw a loss of jobs in the manufacturing sector, of which I think you said 25,000 were in the auto industry—

Ms. NORWOOD. Yes.

Representative LUNGREN [continuing]. And at the same time you indicated the increase that we had in employment in the auto industry over the period of recovery.

Is there some reason for this that comes to mind? Was this specifically in those areas of the auto industry that were affected by weather, or is there anything that we really can tell at this point from 1 month's statistics for that drop in the automobile industry?

Ms. NORWOOD. Auto sales are still quite high. The automobile industry toward the end of the year, the last months of 1984, deliberately for business reasons built up its inventory, and I think we shouldn't place too much emphasis, therefore, on this 1 month. The auto industry has, as I said, regained a considerable amount—in fact, it is way above the level that it was at during the trough of the recession.

I am much more concerned about some of the other manufacturing industries which I think are being very much affected by the restructuring that is occurring, for example, steel, textiles, and leather. Many of them are industries where they have fewer employees than they did at the trough of the recession.

So there is a very real change going on within the manufacturing sector.

Representative LUNGREN. Now, we have seen that the service producing sector is growing faster, obviously, than the manufacturing sector, and some critics—or some observers point to fast food type jobs as being the typical service sector employment that we are talking about.

In 1984, can you tell us, was the fastest rate of job growth in the service sector in the so-called menial jobs, as someone described them, or in managerial or professional specialty occupations?

Ms. NORWOOD. Over the past year, the fastest rate of growth has been in services, which includes hotels and auto repair as well as the very sophisticated business services. Growth has also been rapid in retail trade, which includes general merchandise stores and eating and drinking establishments.

There is a lot of discussion about whether we in the United States are in fact losing good jobs and replacing them with poor jobs.

I don't think that there is any definitive evidence on that yet.

In fact, that is one of the reasons that we are planning to move as rapidly as we can to expand our employment cost index to provide more information on compensation in the service-producing sector by occupation because I think it is that kind of data that is really needed in order to answer this question.

I would point out that when you look at the restructuring of the manufacturing sector, we ought to recognize that, while it is true that we are losing many of the high paying jobs in, say, the steel industry, we are also losing many of the low paying jobs in, say, leather and shoes.

So I don't think we should jump to the conclusion that all of the jobs are going to be low paying jobs.

Representative LUNGREN. I guess what prompted my question was in the Monthly Labor Review for February there was an article discussing total employment. The highest percent positive change was in the managerial professional specialty area, 5.1 per-

cent. There was a note after the graph which said that the administrative support subsector, which includes clerical workers, grew by about 2 percent over the year. I was just trying to see whether there is anything we can draw out of that. That would seem to run counter to the initial thought that many have that the service side is predominantly fast food and only that.

Ms. NORWOOD. You are quite right that it is not just that and only that. I am familiar with that article but you know, I would point out that, for example, in the managerial and professional specialty we have physicians and we have nurses, and that they are very different kinds of jobs with very different kinds of pay. So one really needs to get very deeply into disaggregated data.

My view is that we don't yet have the kind of information that is needed in order to evaluate that. I have looked at the work that has been done. Some work has been done by people in Boston and elsewhere. I am not at all sure that that is definitive enough.

And I am not convinced that this is really a serious problem for us because it is clear that there is a shift going on in occupational employment. We are losing blue collar jobs, and we are gaining white collar jobs, and many of the white collar jobs—many of them, not all of them—but many of those white collar jobs are jobs which require a good deal of skill and background and have relatively high rates of pay.

In addition, I would expect that we would be seeing in the coming year or so greater increases in remuneration in the service-producing sector than in the goods-producing sector just because of the employment conditions there, supply and demand.

Representative LUNGREN. Thank you, Mr. Chairman.

Representative OBEY. Congressman Hawkins.

Representative HAWKINS. Ms. Norwood, I've always been concerned that we seem to know so little about many things and seem to concentrate on what we do know about a few things.

The situation is that each month we discuss these changes, many of which are practically only a small fraction, one-tenth of a percentage point. We seem to be rather precise about it and yet the variables that we're dealing with are very imprecise and we know so little about them. And I view with some concern this loss of personnel in the agency because it may mean that we will be a little more ignorant in the future than what we are now.

Ms. NORWOOD. I hope not.

Representative HAWKINS. Well, maybe you will not be but I am afraid the public may find itself in a very embarrassing situation of not knowing very much about it, which leads me into what I really wanted to explore with you, and that is more precise reporting of what goes on in the labor market.

For example, we have no definition, it seems, of a job. A job is a job if it's 1 hour or 1 week or if it's full time. Whether it's at the minimum or below the minimum wage or whether it is in a very high bracket. And yet it's classified as a job which really doesn't give us very much to go on in terms of formulating policy or determining programs at all.

And we invariably look at the monthly unemployment rate which you bring to us. And yet that unemployment rate, somehow, does not give the severity, the extent, the duration, of unemploy-

ment. So we don't know how many people are out there suffering. We seem to ignore it and if it goes up a fraction everybody rushes to say, well, we don't need job programs, we don't need to do anything. The economy is producing these jobs. And if it goes down for political reasons we tend to ignore it and say, oh, it's only a temporary situation.

And, yet, we are now stuck on a plateau in the 7-percent range. With the exception, maybe, of Canada and the United Kingdom, no other industrialized nation would tolerate that. And I think it's because we seem to think that 8.5 million people are unemployed, we give the impression that most of them are frictionally unemployed people who are just moving from one job to the other, or new people—kids coming into the labor market who really don't need the job, and so forth. And for that reason we should cut back on student assistance because we think everything is going along merrily and we go along with it.

It seems to me if we had some method of doing it—and with your reduced budget I don't know whether or not I'm even being practical—rather than merely discussing the official rate each month, that we could in some way, discuss the actual number of unemployed people.

For example, you mask in a narrative manner, the number of individuals employed part time. Well, we don't know how many of those people are employed part time for economic reasons, how much they really are unemployed. We count them as employed and we don't know how much unemployment is masked by simply aggregating that number. We talk about the discouraged and yet we don't—we count them but we don't include them anyplace. We know they have dropped out of the labor market.

Every year we know that almost 1 million young people drop out of school, age 15. We used to count them, now we ignore them. We know they've dropped out of school. We count them as if they're still in school, where, if they're out there, they're either looking for jobs or they're raising hell. And some of them are becoming criminals. And yet we don't even statistically give any—make any notice of these factors.

There are a lot of factors, it seems to me, that we should be concerned about but because we religiously look at the official unemployment, we take it as something more than just a trend, and we don't include the other factors.

I'm not trying to blame you, obviously. What I'm saying is that, do you believe that it would be possible to develop an index that might reflect these other factors to give some weight to the quality of a job, at least those that we count, to include them in a rate?

Now, whether it is in addition to the official rate, I'm not very much concerned about that. I don't think through my suggestion we're going to get rid of this fiction but, nevertheless, for some of us who are dealing with problems from day to day and actually legislating on the basis of statistics that come from your office, it seems to me that we are uninformed and we cannot, as a result of that, carry on a constructive dialogue with other Members of Congress who don't, let's say, sit in on these hearings each month and don't sit in on some of the appropriate committee hearings, where these things are being discussed.

Ms. NORWOOD. Congressman Hawkins, I think there are several things that we are doing that answer some of the questions, but not all.

You talk about the quality of a job. That's an extraordinarily difficult thing to get at but we do have, in our wage data, a good bit of information about the conditions of work.

In terms of the employment status, we have 8.4 million people that were reported as unemployed in the month of February.

In my statement, I talked about the 5.3 million who told us that they were working, but that they were working part time for economic reasons.

Representative HAWKINS. Have you any idea of the duration of the work—in other words, were they merely picked up because they worked, let's say, a few hours or were they, let's say, working more than half the average workweek or less? Do you have any possibility of breaking it down?

Mr. BREGGER. Their hours of that category tend to average about half of a full-time workweek. In other words, around 22 or 23 hours.

Ms. NORWOOD. On average.

Representative HAWKINS. Would it be fair to say, then, that they might be counted as half unemployed or half employed, whichever way you want to do it? Or you could do it both ways?

Ms. NORWOOD. Well, one could do that and, in fact—

Representative HAWKINS. Which is, in fact, the reality of the situation. If they're half employed; they're half unemployed.

Ms. NORWOOD. Well, in fact, I call your attention to table A-5 of the press release, which has seven different unemployment rates, starting with only those who are unemployed 15 weeks or more, that rate is, of course, quite low, in the 2-percent range, going up to what we call U-6 and U-7, which include some of these groups. And that, of course, brings the rate up almost to or into the double-digit range.

But we do have an unemployment rate which includes—in addition the people who are in the official rate—half of these people who are employed part time for economic reasons, and includes also the 1.3 million people who reported that they were not looking for work because they were too discouraged to look.

Representative HAWKINS. How many people do you think know that that table exists?

Ms. NORWOOD. Well, we talk about it from time to time.

Representative HAWKINS. Yes, but could it parallel the official unemployment rate since it's just as important as the official unemployment rate to include this rate as well as the other. Is it possible each month, as you now do to civilian plus the military, include two rates. Is it possible to include a rate which actually puts this out in bold release so that it—when it goes out with the other rate?

Ms. NORWOOD. Congressman Hawkins, we are not responsible for the way in which people write up the data or for that rate which makes the headlines.

We try—very carefully—to explain to all users of the data that you really need to disaggregate data, you need to look below the

overall numbers—as you're pointing out—to find out what's really going on.

There are 8.4 million people who are unemployed. Not all of this 8.4 million people represent a serious national problem. Clearly, the people who've been unemployed for 6 months or more are in terrible trouble. That's about 1.3 million.

Certainly the 5 million plus people who want to work full time and can't find a full-time job, are in some difficulty. Our minority population which has extraordinarily high unemployment rates and very low employment population ratios, are in difficulty. Each of those groups is in difficulty, I believe, for different kinds of reasons.

And it is these individual groups that we try to point out to people in the executive branch and to those in the Congress who are interested and to reporters, when we discuss these issues with them. These are the kinds of groups that need to be looked at because you need to disaggregate to look at the particular problems that people have.

Many people in this country suffer a spell of unemployment that may be rather short lived. That may be certainly a matter of great difficulty for them but, nevertheless, does not mean that they are in the kind of terrible trouble that someone who's been unemployed for 6 months or a year is in.

Representative HAWKINS. Well, I disagree with you on only one thing, and that is that 8.5 million—and that is the lowest number that could be used, it should be 12 or 15, certainly—that number is a disgrace in a nation such as ours, and I would say that they are suffering and if even a million people are suffering out there in a nation such as ours, to me, that's a tragedy. And I think we cannot ignore them.

Those of us, you know, who are doing so much better than they are, cannot simply brush them off as if they're not suffering. And they're not suffering, in many instances, because of their own disabilities; they're suffering because of things that we do or don't do and I think that, to me, is a national tragedy.

Ms. NORWOOD. I would agree that one does need to look at each of these groups to see what the kinds of policy responses might be. The point I'm making is that the fact that we're reporting 8 million plus people unemployed does not mean that they all have the same kinds of problems. Some of them have serious problems and some of them have less serious problems.

Congressman Hawkins, I might also call your attention to the annual report that BLS puts out, linking unemployment to economic hardship.

We attempt to take the income data that we get from a supplement to the Current Population Survey once a year and relate it to many of these kinds of labor market conditions.

Representative HAWKINS. Thank you, Ms. Norwood. Thank you, Mr. Chairman.

Representative OBEY. Ms. Norwood, returning to your budget for one moment. As I think anybody understands, one of the easiest ways to take away potential arguments if you want to avoid them, is to take away from people who might want to argue with you, access to information.

I'll give you a little example from when the Appropriations Committee, on which I serve, finally decided to make our public hearings open, after the strange anomaly that for years our public hearings were closed.

The reason that those of us who were not chairmen in those days voted to make those hearings open was not because we cared about whether the press was there. I, frankly, couldn't have cared less.

My concern was that the only way we could get our own staff people into the room to help us with information being provided by the witnesses—and sometimes by our own chairmen—was to open up those hearings to the public.

My concern about your budget is that in some areas it does shrink the amount of information which is immediately available to people in analyzing what's going on in the economy.

For instance, to pursue a line of questioning with you on the nature of employment in the service economy—under your budget for this year, as I understand it, the Monthly Labor Review—which Congressman Lungren just referred to, would be shrunk from a monthly to a quarterly review.

Ms. NORWOOD. That's correct.

Representative OBEY. I think things like that create—not an earthshaking problem, certainly, but an additional problem for people who want or need that information, on an up-to-date, timely basis that could be very important at a given stage of consideration of a number of policy decisions.

Let me pursue the line of questioning that was pursued by Congressman Lungren because, as you indicated, the growth portion of the economy in the main at this point seems to be service related rather than industrial.

Am I to take it from your responses to Congressman Lungren that we do not have sufficient information at this time, for instance, to give this committee, say, a comparison of the average wage of new jobs created in service sectors versus the average wage of jobs being lost in the manufacturing sector?

Ms. NORWOOD. We don't have sufficient information to do that by individual occupation and I think it needs to be done by occupation because the occupational structure is shifting.

We have averages of industries from our business survey but they include an average that Carroll Wright, our first Commissioner called a "vicious quotient." And at times it can be used that way.

I think what we need to do in the wage field is to look at occupational wage surveys. We are developing work in that area and we do intend, using resources that are included in the fiscal year 1986 budget, to increase the samples in the service-producing sector so that we will have better data there.

Representative OBEY. Well, let me put it this way: I want to ask you right now to illustrate what I mean. I would like to ask you if you could provide for the committee as soon as possible, a comparison of the average wage of the new jobs created in the service sector versus the average wage of jobs being lost in the manufacturing sector.

Then what I would ask is, how long do you think it would be before you could provide us the additional information which you

just mentioned so that neither Congressman Lungren nor I have to go on the basis of our gut instincts, rather than on the basis of cold, hard facts.

Ms. NORWOOD. The data available do not allow us to differentiate between new jobs and existing jobs. However, it should be noted that in February 1985 average hourly earnings in the private service-producing sector averaged \$7.86, while hourly earnings in manufacturing averaged \$9.42. We'll provide something for the record.

Representative OBEY. Regarding part-time employment, which Congressman Hawkins mentioned, how many of the persons who have part-time jobs but are looking for full-time work are heads of households?

Ms. NORWOOD. I don't know. We are——

Representative OBEY. Do you have the necessary tools to be able to find out?

Ms. NORWOOD. We can provide some information for the record but I would point out to you, Mr. Chairman, that we prefer to look at people who are husbands, who are wives, who are supporting families, females and males who are supporting families on their own, rather than to use the term "heads of household," which we have tried to discourage some years ago in this statistical system.

[The following information was subsequently supplied for the record:]

PERSONS EMPLOYED PART TIME FOR ECONOMIC REASONS BY FAMILY RELATIONSHIP, ANNUAL AVERAGES, 1984

(Numbers in thousands)

Family relationship	Total employed	Part time for economic reasons	
		Total	As percent of total employed
Total ¹	79,488	3,334	4.2
Husbands	37,511	1,033	2.8
Wives	24,848	1,357	5.5
Women maintaining families	5,397	416	7.7
Men maintaining families	1,558	76	4.9
Primary individuals ²	10,174	452	4.4
Men	5,306	232	4.4
Women	4,868	220	4.5

¹ Excludes relatives in families and persons living in group quarters.

² Persons living alone.

Representative OBEY. What would their average family incomes be?

Ms. NORWOOD. We don't have any method to isolate that on an annual bases.

Representative OBEY. Any ideas at all?

Ms. NORWOOD. No.

Representative OBEY. OK.

On the Federal Supplemental Compensation Program, there were, as of January, 326,000 unemployed workers receiving benefits under that program.

Can you tell us during February how many workers were receiving benefits under the Federal Supplemental Compensation Program?

Ms. NORWOOD. The extended benefits or the supplemental? I have that here, just a minute.

[Pause.]

Ms. NORWOOD. I don't have the exact number. I can tell you which States are on or off, and that there were about 320,000 receiving all extended benefits in general as of the middle of February.

Representative OBEY. Can you tell us how many weeks had the typical worker covered by that program been unemployed?

Ms. NORWOOD. No, sir.

Representative OBEY. Why is that?

Ms. NORWOOD. That information is not available, in part because the unemployment insurance [UI] system is a system which has some administrative data but it is used to administer UI benefits to pay checks. It is not looked at in a statistical sense.

There is a body of information there which I believe could be used to track people through the system, but we are not now able to do that.

Representative OBEY. Thank you.

How many people exhaust unemployment insurance benefits each month these days?

Ms. NORWOOD. We have some information coming from the Employment Training Administration of the Department showing that roughly a couple of hundred thousand a month have been exhausting regular benefits. We have figures showing basically that the number exhausting in December is about 189,000 from UI, and then about 82,000 from all extended benefits.

Representative OBEY. What kind of information is available about what happens to workers and their families when they exhaust those UI benefits?

Ms. NORWOOD. We don't really know. They fall out of the system for tracking in UI once they have exhausted their benefits.

Representative OBEY. Isn't that part of what the plant closing study is intended to examine?

Ms. NORWOOD. Yes, sir.

Representative OBEY. Let me ask you questions on farming, and I really have no idea what the answers would be on this.

As you know, it's ironic because a lot of people coming to town here lately are talking about the problems of the farmers, are coming from States, with a couple of exceptions, that have fairly low unemployment rates in comparison to the rest of the country.

I just have a specific technical question. At what point would a farmer who is in the process of losing his farm be counted as unemployed?

Ms. NORWOOD. If he were in the sample, and there certainly are farmers who are included in the sample for the current population survey, at the time that he said that he was not working at all during the survey week, and that he was looking for work, he would be counted as unemployed.

Representative OBEY. Are there any special gaps of information that we have about the labor market in farm areas? Are there any

additional tools that we need to be able to have a more accurate understanding of what the situation is in that area of the economy in terms of employment?

Ms. NORWOOD. Well, as you know, Mr. Chairman, data——

Representative OBEY. Here's what I'm getting at. If you are a young person, for instance, and you go in and you look for a job in my hometown, Wausau, 35,000, you're counted. If you're a young person who is from a farm family, you know, you may work at home and you may not get counted. You may be looking for something else. It gets very squishy.

I guess, it's a whole different way of arriving at information. I guess my question is, given the different way that we treat the farm economy in measuring a lot of things, what do we really know about it in respect to this point?

Ms. NORWOOD. You should understand that our employment-unemployment system is based upon a whole set of definitions which are getting at whether people are working at all or not, not whether they are working at farm work, or whether they're working in the city nearby.

The Agricultural Department Statistical Reporting Service does have a good deal of information, but exactly what that is, I don't know. We could supply something for the record which we could get from them. I'd be glad to do that.

[The following information was subsequently supplied for the record:]

Farm Labor

 Crop
Reporting
Board
Statistical Reporting
Service

United States
Department of
Agriculture
Washington, D.C. 20250

RELEASED: November 20, 1984
3:00 P.M. ET

NUMBER OF HIRED WORKERS DOWN - WAGES HIGHER

During the week of October 7 -13, 1984, 3.2 million people were working on farms and ranches in the United States, according to the Crop Reporting Board. This includes workers hired directly by the farm operators and agricultural services employees working on farms. This is down 20 percent (.8 million) from July and down 16 percent (.6 million) from October 1980, when the last comparable Farm Labor Survey was conducted. Hired workers represented 37 percent (1.2 million) of the total. Of these workers, 1.02 million were hired directly by the farm operators which was 29 and 22 percent fewer than in July 1984 and October 1980, respectively. Farm operators and other unpaid workers who worked 15 hours or more accounted for the remaining 2.0 million workers, 12 percent below July and 18 percent below October 1980.

The wage rates for all hired workers was \$4.56 per hour, up 9.6 percent from July and up 18 percent from October 1980. The wage rate for workers paid on an hourly basis was \$4.45, up 33 cents from July. In October 1980, the wage rate for hourly paid workers was \$3.81. Wage rates by categories of workers were: field \$4.40, Livestock \$4.12, and piece rate \$5.32.

During the October 7 - 13, 1984 survey week, the self-employed farm operator worked an average of 43.1 hours, 5.1 hours less than in July, but 1.4 hours more than in October 1980. The unpaid workers on farms averaged 36.4 hours for the week, down 4.4 and 2.8 hours from July 1984 and October 1980, respectively. Hired workers averaged 40.2 hours, 3.4 hours more than in July and 0.1 hour more than in October 1980.

PERQUISITES AND OTHER BENEFITS

Approximately 49 percent of the hired workers received perquisites such as meals, housing or motor vehicle in addition to the cash wage in October 1984. About 14 percent of the hired workers were furnished a house in addition to the cash wages.

* Requests for a subscription order form covering all available reports *
* should be directed to Crop Reporting Board Publications, Room 5829 - *
* South Building, USDA, Washington, D.C. 20250 (Phone (202) 447-4021). *

SpSy 8 (11-84)

For Information Call: (202) 447-5446

FARM WORKERS AND WORKERS PER FARM

During the week of October 7 - 13, 1984, of the work force hired directly by farm operators, 42 percent were on farms where 11 or more hired workers were employed. Farms employing one hired worker accounted for 15 percent of the direct hired work force.

During the survey week, precipitation fell on nearly all of the western two-thirds of the Nation. Snow piled deep over the western Plateau and Mountains. Thunderstorms produced heavy downpours on the Southeastern Texas coast, from Eastern Oklahoma through Arkansas, to the Delta region and in much of Minnesota. Most of the East Coast States had little or no rain. Corn harvest was running 13 percent behind normal in the Corn Belt States. Cotton harvest was 11 percent behind normal while soybean combining was 15 percent behind normal. Sorghum and rice harvest was slightly behind normal.

SOURCE AND RELIABILITY OF ESTIMATES

The estimates of agricultural labor are based on multiple frame probability surveys. The surveys utilize two sampling frames -- a list frame of agricultural producers and an area frame. The list sample is a stratified random sample containing many employers likely to have large numbers of workers.

The area frame contains all land units in the Nation. A probability sample from the area frame would provide an unbiased estimate for agricultural workers on farms. However, the area frame is a less efficient sampling frame because a large number of workers are hired by a small proportion of farm operators. Therefore, the area frame is used to estimate for the incompleteness in the list. Thereby, the multiple frame sampling approach utilizes the desirable attributes of both frames.

Estimates based on a sample differ somewhat from data that would have been obtained if a complete enumeration had been taken. These differences result from sampling variability. In addition, survey estimates are subject to non-sampling errors. Enumerator training, questionnaire design and testing, and comprehensive edit procedures can minimize the number and severity of these non-sampling errors.

Standard errors and relative sampling errors are statistical measures of the variation that occurs by chance because of sampling of the population. Indications from the survey are expected to be within the range of one standard error below to one standard error above the true value in two out of three cases. At the U.S. level, the number of self-employed and other unpaid workers and the number of hired workers had relative sampling errors of 2.7 and 6.3 percent, respectively. Relative errors at the regional level for hired workers ranged from 8 to 26 percent. Wage rates for all hired workers in the 28 States where State estimates are published had relative errors between 1 and 16 percent.

FARM LABOR: EMPLOYMENT AND INDEXES, UNITED STATES, OCTOBER 1984,
WITH COMPARISONS

ITEM	JUL 6-12, 1980	OCT 12-18, 1980	JUL 8-14, 1984 1/	OCT 7-13, 1984
	THOUSANDS			
FARM EMPLOYMENT				
TOTAL	4,542.6	3,791.4	3,750.0	3,059.0
SELF-EMPLOYED	3/	3/	1,487.4	1,467.0
UNPAID	3/	3/	827.6	567.0
HIRED	1,791.4	1,306.0	1,435.0	1,025.0
EXPECTED TO BE EMPLOYED				
150 DAYS OR MORE	3/	3/	678	652
149 DAYS OR LESS	3/	3/	757	373
AGRICULTURAL SERVICES WORKERS WORKING ON FARMS	67	67	326	190
	(1910-14=100) 2/			
INDEXES				
TOTAL	28	27	23	22
HIRED	33	34	26	26
	(1977=100) 2/			
TOTAL	92	91	75	73
HIRED	94	96	75	75

FARM WAGE RATES 4/ 5/

ITEM	JUL 6-12, 1980	OCT 12-18, 1980	JUL 8-14, 1984 1/	OCT 7-13, 1984
	DOLLARS PER HOUR			
ALL HIRED FARM WORKERS	3.54	3.85	4.16	4.56
METHOD OF PAY				
HOURLY	3.53	3.81	4.12	4.45
PIECE-RATE	4.18	5.16	4.60	5.32
OTHER	3/	3/	4.17	4.64
TYPE OF WORK PERFORMED				
COMBINED FIELD & LIVESTOCK	3.35	3.68	3.93	4.31
FIELD	3.38	3.82	3.93	4.40
LIVESTOCK	3.22	3.40	3.93	4.12
SUPERVISORY	5.45	5.79	6.28	6.62
OTHER	3/	3/	4.45	4.78
	(1910-14=100) 2/			
INDEXES				
ALL HIRED FARM WORKERS	2,456	2,416	2,886	2,862
	(1977=100) 2/			
ALL HIRED FARM WORKERS	129	127	152	150

1/ NO REVISIONS. 2/ SEASONALLY ADJUSTED. 3/ NOT AVAILABLE.
4/ PERQUISITES SUCH AS ROOM AND BOARD, HOUSING, ETC., ARE PROVIDED SOME
WORKERS IN ALL CATEGORIES. 5/ EXCLUDES AGRICULTURAL SERVICE WORKERS.

HIRED WORKERS ON FARMS, UNITED STATES, OCTOBER 1984
 WITH COMPARISONS 1/

NUMBER	:	JUL 8-14, 1984	:	OCT 7-13, 1984
	:	PERCENT		
1 WORKER	:	12	:	15
2 WORKERS	:	13	:	13
3-6 WORKERS	:	27	:	23
7-10 WORKERS	:	7	:	7
11 AND OVER WORKERS	:	41	:	42

 HIRED WORKERS ON FARMS BY METHOD OF PAY, UNITED STATES, OCTOBER 1984
 WITH COMPARISONS 1/

PAYMENT METHOD	:	JUL 8-14, 1984	:	OCT 7-13, 1984
	:	PERCENT		
HOURLY	:	73	:	71
PIECE-RATE	:	8	:	11
OTHER	:	19	:	18

 HIRED WORKERS ON FARMS RECEIVING PERQUISITES, UNITED STATES, OCTOBER 1984
 WITH COMPARISONS 1/

PAYMENT METHOD	:	JUL 8-14, 1984	:	OCT 7-13, 1984
	:	PERCENT		
WAGES ONLY	:	58	:	51
BONUS	:	2	:	4
ROOM AND BOARD	:	7	:	7
HOUSING	:	13	:	14
MEALS OR FOOD	:	8	:	6
OTHER	:	12	:	18

1/ EXCLUDES AGRICULTURAL SERVICE WORKERS.

WORKERS ON FARMS, BY STATES AND REGIONS, OCTOBER 7-13, 1984

STATE AND REGION	ALL FARM WORKERS 1/	SELF- EMPLOYED	UNPAID	HIRED		
				NUMBER OF WORKERS	EXPECTED TO BE EMPLOYED	
					150 DAYS OR MORE	149 DAYS OR LESS
THOUSANDS						
N Y	99	36	25	38	23	15
PA	81	36	24	21	15	6
VA	56	31	12	13	7	6
NORTHEAST 2/	355	148	82	125	76	49
ARK	63	38	10	15	13	2
FLA	85	18	4	63	52	11
GA	68	28	8	32	13	19
LA	32	15	2	15	9	6
MISS	42	22	5	15	12	3
N C	75	39	11	25	14	11
SOUTHEAST 3/	547	253	59	235	150	85
ILL	141	86	28	27	16	11
IND	70	42	17	11	9	2
IOWA	151	85	44	22	12	10
KY	90	43	22	25	13	12
MICH	101	49	20	32	8	24
MINN	168	96	44	28	17	11
MO	106	72	21	13	12	1
OHIO	73	40	11	22	19	3
WIS	155	74	43	38	29	9
NORTH CENTRAL:	1,055	587	250	218	135	83
KANS	88	58	15	15	11	4
NEBR	86	40	24	22	18	4
TEX	209	125	20	64	44	20
PLAINS 4/	564	318	102	144	109	35
ARIZ	25	3	11	11	8	3
COLO	36	19	9	8	6	2
IDAHO	40	18	4	18	8	10
INTER- MOUNTAIN 5/	180	75	50	55	34	21
CALIF	234	45	14	175	113	62
HAW	15	2	1	12	10	2
OREG	49	21	7	21	13	8
WASH	60	18	2	40	12	28
PACIFIC	358	86	24	248	148	100
U S (49 STS)	3,059	1,467	567	1,025	652	373

1/ EXCLUDES AGRICULTURAL SERVICE WORKERS. 2/ LISTED STATES PLUS CONN, DEL, MAINE, MD, MASS, N H, N J, R I, VT, AND W VA. 3/ LISTED STATES PLUS ALA, S C, AND TENN. 4/ LISTED STATES PLUS N DAK, OKLA, AND S DAK. 5/ LISTED STATES PLUS MONT, NEV, N MEX, UTAH, AND WYO.

HOURS WORKED PER WEEK AND WAGE RATES FOR ALL HIRED WORKERS,
BY STATES AND REGIONS, OCTOBER 7-13, 1984, 1/

STATE AND REGION	HOURS WORKED			WAGE RATE
	SELF- EMPLOYED	UNPAID	HIRED	ALL HIRED
	HOURS			DOLLARS PER HOUR
N Y	64.2	38.9	47.6	3.80
PA	57.4	45.3	35.0	4.12
VA	37.5	31.4	37.9	3.80
NORTHEAST 2/	51.6	39.4	42.2	4.01
ARK	31.7	35.9	38.3	4.15
FLA	33.9	33.5	36.8	4.91
GA	39.4	35.2	24.0	3.56
LA	36.8	25.5	35.3	4.17
MISS	25.6	31.7	32.2	4.07
N C	39.3	36.0	35.1	3.92
SOUTHEAST 3/	33.1	33.3	33.2	4.14
ILL	44.1	39.9	44.8	4.36
IND	47.1	34.9	41.3	3.91
IOWA	52.0	37.1	34.5	4.30
KY	34.5	27.5	34.4	4.33
MICH	41.3	31.7	33.0	4.68
MINN	48.0	34.6	43.1	4.11
MO	33.4	30.8	37.0	4.06
OHIO	38.3	38.0	41.8	4.42
WIS	58.3	37.8	38.8	3.65
NORTH CENTRAL	45.2	35.2	38.6	4.17
KANS	49.7	44.2	37.4	4.90
NEBR	55.0	52.3	48.9	4.80
TEX	32.9	34.4	42.4	4.35
PLAINS 4/	43.7	38.1	43.2	4.63
ARIZ	50.2	40.0	48.1	4.80
COLO	42.0	32.1	42.6	4.45
IDAH	48.0	42.0	54.0	3.98
INTER- MOUNTAIN 5/	48.0	38.7	49.5	4.25
CALIF	38.8	35.5	44.6	5.22
HAW	31.0	28.4	37.7	7.42
OREG	33.0	35.0	36.0	4.81
WASH	40.0	37.0	44.0	5.98
PACIFIC	37.5	35.2	43.4	5.48
U S (49 STS)	43.1	36.4	40.2	4.56

1/ EXCLUDES AGRICULTURAL SERVICE WORKERS. 2/ LISTED STATES PLUS CONN,
DEL, MAINE, MD, MASS, N H, N J, R I, VT, AND W VA. 3/ LISTED STATES PLUS
ALA, S C, AND TENN. 4/ LISTED STATES PLUS N DAK, OKLA, AND S DAK.
5/ LISTED STATES PLUS MONT, NEV, N MEX, UTAH, AND WYO.

WAGE RATES FOR HIRED WORKERS, BY STATES AND REGIONS, OCTOBER 7-13, 1984 1/

STATE AND REGION	TYPE OF WORK				METHOD OF PAY			
	FIELD:	LIVESTOCK:	LIVESTOCK 2/:	SUPERVISORY:	HOURLY:	PIECE-RATE:	OTHER:	OTHER
DOLLARS PER HOUR								
N Y	4.04	2.92	3.66	7/	4.55	3.56	7/	3.30
PA	3.74	3.89	3.81	7/	4.62	4.05	7/	4.41
VA	3.65	3.78	3.68	7/	4.03	3.73	7/	3.64
NORTHEAST 3/	4.01	3.41	3.80	5.95	4.59	3.96	4.66	3.69
ARK	3.56	4.36	3.76	6.14	4.43	4.07	7/	4.27
FLA	4.27	4.82	4.40	7.46	5.43	4.70	7/	5.79
GA	3.08	3.88	3.33	7/	3.71	3.53	7/	3.46
LA	3.85	7/	3.90	6.25	4.25	3.95	7/	4.85
MISS	3.43	3.20	3.35	5.75	3.72	3.54	7/	4.78
N C	3.76	4.09	3.84	7/	4.02	3.93	7/	3.74
SOUTHEAST 4/	3.73	4.20	3.86	6.21	4.25	4.02	4.20	4.50
ILL	4.17	4.03	4.14	7.24	4.40	4.27	7/	4.53
IND	3.53	4.61	3.87	7/	3.88	3.80	7/	4.35
IOWA	4.11	4.14	4.12	7/	4.29	4.21	7/	4.74
KY	3.75	4.55	4.05	7/	5.90	4.23	7/	4.28
MICH	4.65	4.40	4.62	7/	7/	4.52	7/	3.92
MINN	4.64	3.09	3.72	7/	4.63	4.24	7/	4.03
MO	3.39	4.09	3.82	7/	4.34	3.99	7/	1.73
OHIO	4.07	3.76	3.98	7.72	6.00	4.30	7/	4.80
WIS	3.98	3.29	3.49	7/	4.22	3.67	7/	3.59
NORTH CENTRAL:	4.13	3.67	3.94	6.88	4.52	4.12	4.69	4.22
KANS	5.40	4.90	5.00	7/	4.80	4.85	7/	5.02
NEBR	5.01	4.53	4.64	6.21	4.37	4.87	7/	4.74
TEX	4.00	4.20	4.12	6.50	4.70	4.31	7/	4.50
PLAINS 5/	4.36	4.36	4.36	6.34	4.76	4.63	4.00	4.68
ARIZ	4.61	4.17	4.52	6.42	5.22	4.51	7/	5.61
COLO	4.67	3.36	4.03	7.82	4.71	4.34	7/	4.55
IDAHO	4.00	3.56	3.88	7/	4.30	4.00	7/	3.89
INTER-MOUNTAIN 6/	4.22	3.74	4.07	6.08	4.28	4.21	5.12	4.23
CALIF	4.93	5.10	4.98	7.36	5.83	5.05	7.08	6.32
HAW	6.52	7/	6.48	10.34	8.25	7.01	7/	9.72
OREG	4.96	4.17	4.71	5.61	4.89	4.76	7/	4.52
WASH	5.89	6.37	5.94	6.54	6.02	5.27	7/	6.50
PACIFIC	5.22	5.10	5.19	7.33	5.92	5.14	6.23	6.29
U S (49 STS)	4.40	4.12	4.31	6.62	4.78	4.45	5.32	4.64

1/ EXCLUDES AGRICULTURAL SERVICE WORKERS. 2/ WAGE RATES OF FIELD AND LIVESTOCK WORKERS COMBINED. 3/ LISTED STATES PLUS CONN, DEL, MAINE, MD, MASS, N H, N J, R I, VT, AND W VA. 4/ LISTED STATES PLUS ALA, S C, AND TENN. 5/ LISTED STATES PLUS N DAK, OKLA, AND S DAK. 6/ LISTED STATES PLUS MONT, NEV, N MEX, UTAH, AND WYO. 7/ INSUFFICIENT DATA FOR THIS CATEGORY-DATA INCLUDED IN ALL HIRED FARM WORKERS AND IN REGION AND U S WAGE RATES.

WORKERS ON FARMS, BY STATES AND REGIONS, JULY 8-14, 1984 1/

STATE AND REGION				HIRED		
	ALL	SELF-	UNPAID	NUMBER	EXPECTED TO BE EMPLOYED	
	FARM WORKERS 2/	EMPLOYED		OF WORKERS	150 DAYS OR MORE	149 DAYS OR LESS
THOUSANDS						
N Y	105	34	25	46	27	19
PA	107	35	38	34	20	14
VA	68	37	12	19	6	13
NORTHEAST 3/	438	157	111	170	98	72
ARK	71	38	12	21	15	6
FLA	72	20	6	46	38	8
GA	80	28	9	43	17	26
LA	37	17	2	18	11	7
MISS	57	24	9	24	14	10
N C	163	43	25	95	19	76
SOUTHEAST 4/	710	262	110	338	146	192
ILL	140	69	26	45	12	33
IND	91	50	18	23	8	15
IOWA	186	90	48	48	11	37
KY	96	52	21	23	12	11
MICH	122	50	29	43	11	32
MINN	208	90	75	43	21	22
MO	147	79	42	26	9	17
OHIO	120	54	27	39	17	22
WIS	170	64	60	46	28	18
NORTH CENTRAL	1,280	598	346	336	129	207
KANS	98	51	24	23	7	16
NEBR	102	44	27	31	16	15
TEX	220	100	30	90	50	40
PLAINS 5/	636	284	157	195	97	98
ARIZ	29.5	3.5	11	15	11	4
COLO	50	22	15	13	7	6
IDAHO	51	21	7	23	8	15
INTER- MOUNTAIN 6/	238	86	67	85	47	38
CALIF	273	55	12	206	119	87
HAW	16	2.4	1.6	12	10	2
OREG	81	23	11	47	15	32
WASH	78	20	12	46	17	29
PACIFIC	448	100.4	36.6	311	161	150
U S (49 STS)	3,750	1,487.4	827.6	1,435	678	757

1/ NO REVISIONS. 2/ EXCLUDES AGRICULTURAL SERVICE WORKERS. 3/ LISTED STATES PLUS CONN, DEL, MAINE, MD, MASS, N H, N J, R I, VT, AND W VA.
 4/ LISTED STATES PLUS ALA, S C, AND TENN. 5/ LISTED STATES PLUS N DAK, OKLA, AND S DAK. 6/ LISTED STATES PLUS MONT, NEV, N MEX, UTAH, AND WYO.

HOURS WORKED PER WEEK AND WAGE RATES FOR ALL HIRED WORKERS.
BY STATES AND REGIONS, JULY 8-14, 1984, 1/ 2/

STATE AND REGION	HOURS WORKED			WAGE RATE
	SELF- EMPLOYED	UNPAID	HIRED	ALL HIRED
	HOURS			DOLLARS PER HOUR
N Y	68.5	45.4	44.5	3.39
PA	57.7	45.9	36.3	3.86
VA	36.7	36.4	28.7	3.73
NORTHEAST 3/	50.9	42.6	37.0	3.72
ARK	39.7	35.4	40.7	3.95
FLA	29.2	34.8	38.9	4.66
GA	41.8	44.0	33.0	3.41
LA	32.8	32.6	34.7	4.19
MISS	33.6	30.8	41.0	3.52
N C	38.4	39.7	26.3	3.55
SOUTHEAST 4/	37.0	35.6	33.0	3.71
ILL	46.1	33.1	25.8	4.09
IND	45.5	37.6	30.6	3.76
IOWA	47.6	41.2	24.2	3.98
KY	36.1	39.9	31.4	4.13
MICH	49.5	34.9	35.1	4.10
MINN	59.3	42.8	34.0	3.78
MO	44.5	39.8	30.5	3.83
OHIO	38.9	37.1	28.1	4.26
WIS	64.7	43.3	36.4	3.16
NORTH CENTRAL:	48.8	40.0	30.6	3.87
KANS	61.2	50.8	37.3	4.50
NEBR	71.0	51.5	43.2	4.10
TEX	41.8	39.5	42.4	4.01
PLAINS 5/	54.8	45.9	41.8	4.25
ARIZ	47.4	29.6	55.5	4.22
COLO	52.9	45.3	50.6	4.26
IDAHO	55.6	41.3	49.5	3.59
INTER- MOUNTAIN 6/	56.5	39.5	52.9	3.90
CALIF	39.5	39.2	40.7	5.16
HAW	30.4	27.5	37.7	7.21
OREG	46.0	39.3	34.7	4.24
WASH	57.0	36.0	42.0	4.78
PACIFIC	44.3	37.7	39.9	5.06
U S (49 STS)	48.2	40.8	36.8	4.16

1/ NO REVISIONS. 2/ EXCLUDES AGRICULTURAL SERVICE WORKERS. 3/ LISTED STATES PLUS CONN, DEL, MAINE, MD, MASS, N H, N J, R I, VT, AND W VA.
4/ LISTED STATES PLUS ALA, S C, AND TENN. 5/ LISTED STATES PLUS N DAK, OKLA, AND S DAK. 6/ LISTED STATES PLUS MONT, NEV, N MEX, UTAH, AND WYO.

WAGE RATES FOR HIRED WORKERS, BY STATES AND REGIONS, JULY 8-14, 1984 1/ 2/

STATE AND REGION	TYPE OF WORK				METHOD OF PAY			
	1/	2/	3/	4/	5/	6/	7/	8/
	FIELD	LIVESTOCK	LIVESTOCK	3/ VISORY	OTHER	HOURLY	RATE	OTHER
	DOLLARS PER HOUR							
N Y	3.30	3.00	3.20	5.30	4.30	3.43	8/	3.24
PA	3.78	3.48	3.71	8/	5.27	3.90	8/	3.69
VA	3.74	3.49	3.70	8/	8/	3.70	8/	3.82
NORTHEAST 4/	3.58	3.27	3.49	5.63	4.78	3.78	4.07	3.55
ARK	3.62	4.40	3.81	5.14	3.90	3.95	8/	3.96
FLA	4.09	4.20	4.11	7.14	5.69	4.51	8/	5.18
GA	3.07	3.79	3.22	8/	3.61	3.47	8/	3.34
LA	3.89	4.08	3.91	6.30	4.37	4.10	8/	4.78
MISS	3.32	3.42	3.35	8/	3.45	3.46	8/	3.65
N C	3.40	4.19	3.48	8/	3.70	3.47	8/	4.26
SOUTHEAST 5/	3.42	3.88	3.49	5.89	4.05	3.72	3.11	3.84
ILL	3.89	3.64	3.85	8/	4.77	4.06	8/	4.14
IND	3.65	3.53	3.60	8/	3.95	3.69	8/	3.89
IOWA	3.81	3.77	3.80	8/	4.74	4.04	8/	3.82
KY	3.39	4.30	3.93	8/	5.70	4.06	8/	4.07
MICH	3.96	4.47	4.02	8/	3.94	3.97	8/	5.40
MINN	3.84	3.21	3.67	8/	3.65	3.98	8/	2.90
MO	3.41	4.01	3.60	8/	4.05	3.89	8/	3.87
OHIO	4.04	3.84	4.00	8/	8/	4.27	8/	4.20
WIS	3.20	2.75	2.98	8/	3.43	3.16	8/	3.16
NORTH CENTRAL	3.77	3.53	3.70	6.16	4.13	3.89	3.82	3.79
KANS	4.00	4.20	4.03	8/	4.69	4.45	8/	4.40
NEBR	4.20	4.30	4.23	8/	3.80	4.32	8/	3.85
TEX	3.80	4.00	3.87	8/	4.00	3.90	8/	4.10
PLAINS 6/	3.93	4.24	4.02	6.11	4.43	4.18	5.86	4.25
ARIZ	3.87	4.15	3.92	6.17	4.75	3.93	8/	5.28
COLO	3.35	4.52	4.03	8/	4.51	4.11	8/	4.39
IDAH0	3.48	3.44	3.47	8/	4.26	3.60	8/	3.50
INTER-								
MOUNTAIN 7/	3.63	4.18	3.75	5.85	3.85	3.81	4.24	4.00
CALIF	4.88	4.87	4.88	6.90	5.47	4.83	6.79	6.07
HAW	6.13	8/	6.11	10.03	6.60	6.90	8/	8.80
OREG	4.29	4.00	4.23	8/	4.20	4.22	8/	3.80
WASH	4.33	8/	4.51	8/	5.56	4.73	8/	5.65
PACIFIC	4.75	4.85	4.76	6.88	5.55	4.84	5.64	5.76
U S (49 STS)	3.93	3.93	3.93	6.28	4.45	4.12	4.60	4.17

1/ NO REVISIONS. 2/ EXCLUDES AGRICULTURAL SERVICE WORKERS. 3/ WAGE RATES OF FIELD AND LIVESTOCK WORKERS COMBINED. 4/ LISTED STATES PLUS CONN, DEL, MAINE, MD, MASS, N H, N J, R I, VT, AND W VA. 5/ LISTED STATES PLUS ALA, S C, AND TENN. 6/ LISTED STATES PLUS N DAK, OKLA, AND S DAK. 7/ LISTED STATES PLUS MONT, NEV, N MEX, UTAH, AND WYO. 8/ INSUFFICIENT DATA FOR THIS CATEGORY-DATA INCLUDED IN ALL HIRED FARM WORKERS AND IN REGION AND U S WAGE RATES.

AGRICULTURAL SERVICES

Crew leaders and custom crews provided 190,000 workers for the Nation's farms during the week of October 7-13, 1984. In July of this year, 326,000 farm workers were custom crews. The number of agricultural service workers in all areas except the Northeast and California was sharply lower than in July. Harvesting of fall crops in the Northeast and California kept the number of agricultural service workers on farms at about the same level as July.

The average hourly wages received by workers furnished by agricultural service firms in California and Florida were \$6.41 and \$5.04 per hour, respectively. Comparable wage rates in July were \$6.14 in California and \$4.29 in Florida.

AGRICULTURAL SERVICES: NUMBER OF WORKERS, AVERAGE HOURS WORKED FOR ALL HIRED WORKERS, WAGE RATE BY TYPE OF WORK, WITH COMPARISONS, FOR CALIFORNIA, FLORIDA, AND UNITED STATES, OCTOBER 7-13, 1984 1/ 2/

ITEM	JUL 1984			OCT 1984		
	CALIF	FLA	U S	CALIF	FLA	U S
	THOUSANDS					
NUMBER OF WORKERS WORKING ON FARMS	75	7.5	326	63	4.8	190
	HOURS					
AVERAGE HOURS WORKED	41.4	41.8	3/	37.4	31.9	3/
	DOLLARS PER HOUR					
WAGE RATES	6.14	4.29	3/	6.41	5.04	3/
METHOD OF PAY						
HOURLY	5.41	4.48	3/	5.50	4.19	3/
PIECE-RATE	6.60	3.98	3/	7.00	5.50	3/
TYPE OF WORK PERFORMED						
FIELD	5.05	3.90	3/	5.35	4.46	3/

- 1/ DATA IN THIS TABLE ARE FOR AGRICULTURAL SERVICES PERFORMED ON THE FARM BY CUSTOM SERVICE UNITS SUCH AS CREW LEADERS OR CUSTOM CREWS. THESE STATISTICS ARE NOT INCLUDED IN THE STATE-REGIONAL TABLES.
 2/ VALUE OF ANY PERQUISITES PROVIDED ARE NOT INCLUDED IN THE WAGE RATE.
 3/ NOT AVAILABLE.

Representative OBEY. All right. Congressman Lungren.

Representative LUNGREN. Thank you, Mr. Chairman. Trying to get back to the question of what job growth means in the different sectors, at the end of January, your Bureau issued a statistical release on the weekly earnings of workers and their families.

How would you describe the increase in median earnings in the fourth quarter?

[Ms. Norwood perusing documents.]

Representative LUNGREN. I didn't mean to catch you unawares.

Ms. NORWOOD. That's quite all right. They, I'm sure, were up.

Representative LUNGREN. You said that they were 5.9 percent higher than the previous year.

Ms. NORWOOD. For median earnings of families with wage and salary workers, that's correct. And that exceeded, of course, the rate of inflation.

Representative LUNGREN. I take it that's a significant increase?

Ms. NORWOOD. Yes. Yes, indeed.

Representative LUNGREN. Without, I guess, going into, how you break that down into quarters, that basis, it does appear that those who are working, and I'm not trying to diminish the problems of those who are not working, but it does seem to me to at least indicate that those who are working were working at rates of pay that allowed them at least to keep up substantially with inflation and beyond.

Let me ask you this, Ms. Norwood, skipping to another area, about the weekly hours and overtime in manufacturing that we have with the figures that you bring us today. In the past, you have told us that those figures have remained at somewhat—you may even have used the phrase "relatively high levels."

Ms. NORWOOD. Yes.

Representative LUNGREN. Is that still true? Are we seeing any diminution in that?

Ms. NORWOOD. Well, as I said earlier, in the month of February average weekly hours in manufacturing nosedived. I think it's related to particularly bad weather and I would not attach too much importance to that. They are relatively high. They have been higher but they are still holding up.

Representative LUNGREN. The reason I asked that is in explaining to those of us trying to figure out what all that means, there was the indication that when they are at relatively high levels, this might be at least one indication of potential additional employment gains to come.

And if that's the case, I was somewhat concerned about the nose-dive we saw with the 1-month figures. Are you telling us we have got to wait until next month to see where we are, to see if in fact it is the precursor of bad news or harbinger of good news?

Ms. NORWOOD. I would tend to discount a great deal this 1-month shift in hours.

Representative LUNGREN. It's my understanding that the 3.6 percent gain in business productivity during 1984 was the largest increase in over a decade.

Can you tell me when the last time business productivity increased by that much? Do we have those statistics available?

Ms. NORWOOD. Mr. Mark is our expert here. He, I'm sure, would know.

Representative LUNGREN. It's a big question that comes up in our deliberations here. And one of the big questions is: How do you get productivity gains?

I'm just trying to find out if in fact we have some of some significance in this past year.

Ms. NORWOOD. The productivity increases in the business sector were 3.6 percent in 1971, 3.5 in 1972, and 3.3 in 1976. That's a long time ago.

Representative LUNGREN. The nonfarm business labor productivity rose at 3.5 percent in 1983, 3.1 percent in 1984, and how does that compare with the productivity gains of the previous 6 or 7 years?

Ms. NORWOOD. It's much higher.

Mr. MARK. It's much higher. The last period when we had a rate that high was in 1976, when it was 3.2. That was the recovery year.

Representative LUNGREN. Thank you.

I have one question on this employment population ratio and labor force participation. It appears, at least from the data you bring us today, that those figures for adult females are at an all-time high. I wonder, is that rate of increase going to crest? I mean, do you anticipate that cresting? Or, is this a phenomenon that we've got that we really don't see cresting in the near future?

Or, do we have any data or any basis upon which to make a judgment at this point in time?

Ms. NORWOOD. There are many different points of view on that. My own personal one is that the rate of labor force participation for women will continue to increase, but at a somewhat slower rate than it did in the seventies.

It's rather interesting to note that, in February, for women from 20 to 44 years of age, their participation rates were over 70 percent. They ranged from 70.5 to 71.8 percent. That's extraordinarily high. In 1970, those rates were around the 50 percent range.

Representative LUNGREN. The reason I'm trying to find out about this is that we've discussed this many times before. We've had the postwar baby boomers go through. We have less people demographically coming into the labor force. Yet, we see this tremendous labor force growth at the same time we're seeing demographically a diminution of the increase. So I have to look at other factors.

One of them has been this rapid increase in female participation. And I wonder if we anticipate a crest in that, or is this some phenomenon that we really don't have a handle on in terms of interpretation.

The reason I say that is as we look at these challenges that you and I have discussed over the last couple of years, with the demographics changing, we thought that maybe we didn't have to have the same percentage of increase in jobs on a yearly basis to make the impact on the unemployment rate.

Yet, we see with this strong labor force growth that maybe some of us were too optimistic in looking forward to something which has not come to pass. And I'm trying to get a handle on this phenomenon we see with participation. And I'm not making a com-

ment on whether it's good or it's bad, just what is it that we look forward to? And is this something that is going to make it more difficult from a statistical standpoint of anticipating a drop in the unemployment rate?

Ms. NORWOOD. Actually, the future will see somewhat less upward pressure from factors of these kinds than we had in the sixties and the seventies. That's because labor force growth in total is anticipated to slow down a bit. It's because we have passed through the baby boom generations growing up. And it's because the massive increase of labor force participation of women occurred in the sixties and the seventies.

Now, having said that, I think it is important to recognize that we are, if we're looking at upward pressure on unemployment, we have teenagers who, though smaller in numbers have, at least in recent months, begun to increase their labor force participation rates.

We have women who are continuing to increase their labor force participation rates. We have in this country now more than half of husband-wife families with more than one earner. A large proportion of our youngsters even under the age of a year now have working mothers.

We have, therefore, I think an increasing view that the standard of living of American families is going to be based upon two incomes. So I believe that we will see an increasing rate of participation but I do not believe that we will see the kind of growth that we saw in the seventies.

One other factor that I think is going to put upward pressure on the unemployment rate is that it is quite clear that if you go back in time, the birthrates of the black population declined, as did the whites, but black fertility was at a higher rate and remains higher than for whites. As of 1983, the Hispanic fertility rate was higher than for blacks or whites. The result is that when we look forward in time, we believe that we will be seeing a much larger proportion of the new entrants to the labor force as members of our minority population.

As we have discussed here many times, the minority population of the country generally has a much higher rate of unemployment. They have more difficulty in the labor market. They are located frequently in different places of the country where it's harder to find jobs.

So that is going to put upward pressure on the unemployment rate.

So we're going to have, I think, factors which will work on both sides.

Representative LUNGREN. Thank you, Madam Commissioner. My time is up. I just wanted to say one thing because I have to leave a little early. If I can be parochial for a moment, your office was good enough to give us the statistics for California and at least I can look at those on somewhat of a happy note. We have employment on a seasonally adjusted basis for California of just under 12 million, which shows a gain of 64,000 since January 1985.

The fifth consecutive month, seasonally adjusted employment has reached a new high and the unemployment rate in my home

State now is down to 6.7 percent in February 1985, which is the lowest it's been since May 1981.

So I know that it's mixed information around the country but at least when I get good information I would like to share it for the record, for my own home State.

The chairman, I guess, is on the phone so I guess it's—

Representative HAWKINS [presiding]. He left the gavel. I just didn't move over, Congressman Lungren.

Representative LUNGREN. I will give it back to the new chairman.

Representative HAWKINS. Temporarily.

Ms. Norwood, I've read again your statement and you, I think, very specifically bring out the point that there is something happening in the economy, in which manufacturing industries are declining, it would seem, at least in employment; and increasing in the service producing sector.

Now I'm not so sure that that's a simple explanation for that. I think it goes much beyond weather, however. Would the statistical gathering that you engage in indicate the nature of that shift?

Last week, I listened to Lee Iacocca describe not only what was happening in the automobile manufacturing industry but in telecommunications, textile, and steel, et cetera, some 15 industries. According to his thesis, there is something more basic happening that just, let's say, weather conditions or a pattern, a temporary pattern in American life. To him, it was a process of deindustrialization. That is, we're losing out in these industries to foreign countries and that, in his opinion, they are not likely to come back.

In other words, what you describe seems to be a situation that will not reverse itself or reverse itself very easily. That leads me into asking you whether or not the jobs that are being gained in this process in quality—in terms of quality, I'm now referring to wage rates—how do they compare with specifically those that are being lost? In other words, if an individual in the automobile manufacturing industry—or some of the other industries—lose their jobs, let's say, paying \$15 to \$20 an hour and the individuals are gaining the jobs, in the industries that ordinarily are paying \$5 an hour, in some instances in the food industry, it may be as low as the minimum wage.

It would seem that if an individual loses such a job, a job is lost—not the individual. A job is lost in the one instance at \$15 an hour, and jobs are being gained at \$5 an hour, what you have then is a situation of three people now being employed where one previously was employed.

To what extent does this account then for this tremendous increase in jobs in the last few years? To what extent is this the situation rather than the economy producing the jobs that are comparable to those that were lost?

Would your statistics in any way shed any light on this situation, because if it does, then it simply means that the Nation is worse off, even though the employment rate may be going up, the employment numbers may be going up; however, as the Nation itself, the economy is no better off from the viewpoint of the earnings that are being earned and the revenues that are being paid on those earnings.

Ms. NORWOOD. Congressman Hawkins, we did a special survey looking at displaced workers. In January 1984, we looked at people between basically January 1979 and 1984. We had to develop our own definition of displacement, because there are a lot of definitions around. It's a very popular subject.

Representative HAWKINS. Would it include—if I may interrupt. Would it include displacement as the result of imports?

Ms. NORWOOD. Yes, it would involve people who had been working at their jobs for at least 3 years and who lost their jobs because of the closing down or moving of a plant, because of slack work, or the abolishment of a position or shift. We found that if we defined them that way, there were a little more than 5 million people who in that 4-year period had lost their jobs. About 60 percent of them were reemployed, when we surveyed them in January 1984.

Representative HAWKINS. Employed in the same—

Ms. NORWOOD. No, they had jobs in a different plant or company.

Representative HAWKINS. They were just simply—

Ms. NORWOOD. They were reemployed, but not back in the same place.

Representative HAWKINS. Not necessarily at the old job, but they—

Ms. NORWOOD. No, sir, not in their old jobs. And about 25 percent of the displaced workers were looking for work and the rest of them, something like 700,000, had left the labor force. Now if you look at those who were reemployed and look at their earnings, a large proportion of them were earning less money than they had before. For example, for 2.3 million people who were reemployed in full-time wage and salary jobs, about 620,000 were earning 20 percent or more below their former earnings; 320,000 were earning less money but within 20 percent of what they had earned. About 1.1 million were earning the same amount or more than they were before and some of these, about 500,000, were earning at least 20 percent more than they were before.

Thus, about 45 percent of the 2 million workers who were reemployed full time and for whom we obtained data were earning less money than before they had been displaced.

Representative HAWKINS. And the other 55, how was that divided?

Ms. NORWOOD. I can submit that for the record.

Representative HAWKINS. These were the fortunate ones, those who gained some type of employment, a considerable number of those who lost their jobs were still unemployed. Is that also true?

Ms. NORWOOD. Yes. That is true.

Representative HAWKINS. So we're talking really about the more fortunate ones, rather than the total number—

Ms. NORWOOD. The 60 percent who were reemployed.

Representative HAWKINS. The other 40 percent would be distributed in what way? Did you speculate on how they would be distributed?

Ms. NORWOOD. Yes, about two-thirds were looking for work and the rest had left the labor force. I can supply the details for the record.

Representative HAWKINS. I wish you would.

[The following information was subsequently supplied for the record:]

News

U.S. Department of Labor
Bureau of Labor Statistics
Washington, D.C. 20212



Technical information: (202) 523-1821
523-1659

USDL 84-492

Media contact:

523-1913

FOR RELEASE: IMMEDIATE
FRIDAY, NOVEMBER 30, 1984

BLS REPORTS ON DISPLACED WORKERS

The Bureau of Labor Statistics of the U.S. Department of Labor has completed a special study of workers whose jobs were abolished or plants shut down between January 1979 and January 1984.

The study shows that of 5.1 million workers who had been at their jobs at least 3 years before they were displaced, 60 percent (3.1 million) were reemployed when surveyed in January 1984, though many at lower pay; about 25 percent (1.3 million) were looking for work and the rest (700,000) had left the labor force.

Among the displaced workers who were reemployed, about 360,000 who had previously been in full-time wage and salary jobs were in part-time jobs when surveyed. Among those who were once again in full-time jobs—and reported earnings for both the old and new jobs—about 45 percent were earning less in the new job than in the one they had lost.

A displaced worker, as defined in this study, is one who (1) lost a job between January 1979 and January 1984, (2) had worked at least three years in that job, and (3) lost it because of the closing down or moving of a plant or company, slack work, or the abolishment of a position or shift.

The survey on which this study is based was sponsored by the Employment and Training Administration and was conducted as a supplement to the January 1984 Current Population Survey. (For a description of the supplement, see the explanatory note on page 4.) Altogether, a total of 11.5 million workers 20 years of age and over were identified in this survey as having lost jobs during the January 1979-January 1984 period because of one of the three factors listed above. However, a large number of these workers had been at their jobs only a relatively short period when the loss occurred, with 6.4 million reporting one year or less of tenure on the lost job. To focus on workers who had developed a relatively firm attachment to the jobs they lost, only those with a minimum of 3 years of tenure are included in this analysis, and the data presented in tables 1 through 7 relate only to these 5.1 million workers.

Employment status in January 1984

The chance of reemployment for these displaced workers declined significantly with age. While the overall proportion who were employed in January 1984 was 60 percent, this varied from 70 percent for those 20 to 24 years of age to 41 percent for those 55 to 64 years of age. Those 65 years and over often retire when they lose a job, so the proportion in this age



Centennial
of Labor
Statistics

group who were employed in January 1984 was only 21 percent. (See table 1.)

Over one-fourth of the displaced workers 55 to 64 years of age and as many as two-thirds of those 65 years and over were out of the labor force--that is, were neither employed nor unemployed--when studied. Women in general were somewhat less likely than men to be reemployed and more likely to have left the labor force.

Of the 5.1 million workers who had lost a job over the previous 5 years, about 1.3 million, or one-fourth, were unemployed when surveyed in January 1984. The proportion unemployed was about 23 percent among whites, 41 percent among blacks, and 34 percent among Hispanics.

Reasons for displacement

Almost one-half (49.0 percent) of the 5.1 million workers reported they had lost their jobs because their plant or company had closed down or moved. Another two-fifths (38.7 percent) cited "slack work" as the reason. The balance (12.4 percent) reported that their position or shift had been abolished. (See table 2.) The older the worker, the more likely was the job loss to stem from plant closings. Younger workers, having generally less seniority, were about as likely to have lost their jobs due to slack work as due to plant closings.

Years worked on lost job

Many of the 5.1 million displaced workers had been in their jobs for relatively long periods. Nearly one-third (30.2 percent) had been displaced from jobs on which they had worked 10 years or more. Another third (33.6 percent) had been on their jobs from 5 to 9 years. The remainder had lost jobs at which they had worked either 3 or 4 years. The median tenure on the lost jobs for the entire 5.1 million workers was 6.1 years. Not surprisingly, the length of tenure tended to increase with the age of the displaced workers. For example, median tenure for those 55 to 64 had been 12.4 years. (See table 3.)

Industry and occupation

Nearly 2.5 million, or almost one half of the workers in question, had been displaced from jobs in the manufacturing sector, principally in durable goods industries. (See table 4.) About 220,000 had worked in primary metals, 400,000 in machinery, except electrical, and 350,000 in the transportation equipment industry, with autos accounting for 225,000.

Of the workers who had lost jobs in the primary metals industry, less than half (45.7 percent) were employed in January 1984, and nearly two-fifths (38.7 percent) were still reported as unemployed. Of those who had lost jobs in the nonelectrical machinery industry or the transportation equipment industry, the proportion employed in January 1984 was over 60 percent.

From an occupational standpoint, operators, fabricators, and laborers figured most prominently among the workers who had been displaced from jobs. (See table 5.) In general, the higher the skill of the displaced workers, the more likely they were to be reemployed when surveyed. For example, among those who had been displaced from managerial and professional jobs, the proportion reemployed was about 75 percent. In contrast, among those who had lost jobs as handlers, equipment cleaners, helpers, and laborers, less than one-half were reemployed.

Geographic distribution

Relatively large numbers of the workers who had been displaced from their jobs resided in the East North Central (1.2 million) and the Middle Atlantic (800,000) areas. (See table 6 for definitions of these areas.) This reflects in part the concentration of heavy industries in these two areas and the employment losses which these industries incurred in recent years. As shown in table 6, the workers who had been displaced in these two areas were less likely than those in other areas to be reemployed when surveyed in January 1984. Whereas the nationwide proportion who were reemployed was three-fifths, it was only about one-half in these two areas. The East North Central area had nearly one-third of all the displaced workers who were unemployed in January 1984--400,000 out of a national total of 1.3 million--and nearly one-half of those in the East North Central area had been unemployed for more than 6 months.

Earnings on new job

Of the 3.1 million displaced workers who were again employed in January 1984, a little over 2.8 million had previously held full-time wage and salary jobs. Of these, nearly 2.3 million, were once again working in full-time wage and salary jobs when surveyed. Earnings data for about 2 million of these workers were obtained both for the old and new jobs.

About 1.1 million (55 percent) of these 2 million workers reported weekly earnings from their new jobs that were equal to or higher than the earnings on the jobs they had lost, with 500,000 reporting that their earnings exceeded those on their previous jobs by 20 percent or more. On the other hand, about 900,000 (45 percent) reported earnings that were lower than those on the jobs they had lost, with about 600,000 having taken cuts of 20 percent or more. (See table 7.)

Workers who had been displaced from jobs in durable goods manufacturing were somewhat more likely than other workers to be earning less on the jobs they held in January 1984 than in those they had lost. About 40 percent of those who were in new full-time wage and salary jobs when surveyed in January 1984 reported weekly earnings of 20 percent or more below those on the jobs they had lost.

EXPLANATORY NOTE

The data presented in this report were obtained through a special survey conducted in January 1984 as a supplement to the Current Population Survey, the monthly survey which provides the basic data on employment and unemployment for the Nation. The purpose of this supplementary survey was to obtain information on the number and characteristics of workers 20 years of age and over who had been displaced from their jobs over the previous 5 years, that is, over the period from January 1979 to January 1984. This is the period during which the economy went through two back-to-back recessions and the levels of employment in some industries, particularly the goods-producing sector, were reduced considerably.

In order to identify workers who had been displaced from jobs, the survey respondents were first asked whether the household member had lost a job during the period in question "because of a plant closing, an employer going out of business, a layoff from which (he/she) was not recalled, or other similar reasons." If the answer to this question was "yes", the respondent was asked to identify, among the following reasons, the one which best fit the reason for the job loss:

- Plant or company closed down or moved
- Plant or company was operating but job was lost because of:
 - Slack work
 - Position or shift was abolished
 - Seasonal job was completed
 - Self-employment business failed
 - Other reasons

After ascertaining the reason for the job loss, a series of questions were asked about the nature of the lost job--including the year it was lost, the years of tenure, the earnings, and the availability of health insurance. Other questions were asked to determine what transpired after the job loss such as: How long did the person go without work, did he or she receive unemployment insurance benefits, were the benefits exhausted, and, finally, did the person move after the job loss. If the person was reemployed at the time of the interview, follow-up questions were asked to determine the current earnings. And, regardless of the employment status at the time of the interview, a question was asked of all those who had been reported as having lost a job to determine whether they currently had any health insurance coverage.

As noted earlier, in tabulating the data from this survey the only workers considered to have been displaced from their jobs were those who reported job losses arising from: (1) The closing down or moving of a plant or company, (2) slack work, or (3) the abolishment of their position or shift. This means that workers whose job losses stemmed from the completion of seasonal work, the failure of self-employment businesses, or other miscellaneous reasons were not included among those deemed to have been displaced. A further condition for inclusion among the displaced workers for the purpose of this study was tenure of at least 3 years on the lost job.

In examining the displaced workers who were unemployed in January 1984, it is important to note that not all were continually unemployed since the job loss they reported. Many, particularly those who reported job losses which occurred in 1979 or the very early 1980's, may subsequently have held other jobs, only to find themselves unemployed once again in January 1984.

More detailed analysis of the data from this supplement, including topics not covered in this release, will be forthcoming.

Table 1. Employment status of displaced workers by age, sex, race, and Hispanic origin, January 1984
(Percent)

Age, sex, race, and Hispanic origin	Total ¹ / (thousands)	Total	Employed	Unemployed	Not in the labor force
TOTAL					
Total, 20 years and over.....	5,091	100.0	65.1	25.5	14.4
20 to 24 years.....	342	100.0	70.4	20.2	9.4
25 to 34 years.....	3,809	100.0	64.9	25.4	9.6
35 to 44 years.....	748	100.0	40.8	31.8	27.4
45 years and over.....	191	100.0	20.8	12.1	67.1
Men					
Total, 20 years and over.....	3,328	100.0	63.6	27.1	9.2
20 to 24 years.....	204	100.0	72.2	21.7	6.1
25 to 34 years.....	2,570	100.0	68.2	26.8	5.0
35 to 44 years.....	461	100.0	43.6	34.1	22.3
45 years and over.....	92	100.0	16.8	12.9	70.3
Women					
Total, 20 years and over.....	1,763	100.0	53.4	22.5	24.2
20 to 24 years.....	138	100.0	67.8	18.0	14.2
25 to 34 years.....	1,239	100.0	58.0	22.6	19.4
35 to 44 years.....	287	100.0	36.3	28.0	35.7
45 years and over.....	99	100.0	24.6	11.3	64.1
WHITE					
Total, 20 years and over.....	4,397	100.0	62.6	23.4	13.9
Men.....	2,811	100.0	66.1	25.1	8.8
Women.....	1,484	100.0	55.8	20.2	24.1
BLACK					
Total, 20 years and over.....	602	100.0	41.8	41.0	17.1
Men.....	358	100.0	43.9	44.7	11.4
Women.....	244	100.0	38.8	35.6	25.6
HISPANIC ORIGIN					
Total, 20 years and over.....	282	100.0	52.2	33.7	14.1
Men.....	189	100.0	55.2	35.5	9.3
Women.....	93	100.0	46.3	30.0	23.6

¹/ Data refer to persons with tenure of three or more years who lost or left a job between January 1979 and January 1984 because of plant closings or moves, slack work, or the abolishment of their positions or shifts.

NOTE: Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

Table 2. Workers who were displaced from jobs between January 1979 and January 1984 by age, sex, race, Hispanic origin, and reason for job loss

(Percent)

Age, sex, race, and Hispanic origin	Total ^{1/} (thousands)	Total	Plant or company closed down or moved	Slack work	Position or shift abolished
TOTAL					
Total, 20 years and over.....	5,091	100.0	49.0	38.7	12.4
20 to 24 years.....	342	100.0	47.1	47.1	5.8
25 to 54 years.....	3,809	100.0	46.3	41.0	12.7
55 to 64 years.....	748	100.0	57.8	28.2	14.0
65 years and over.....	191	100.0	70.8	18.1	11.1
Men					
Total, 20 years and over.....	3,328	100.0	46.0	42.9	11.1
20 to 24 years.....	204	100.0	39.5	59.6	0.9
25 to 54 years.....	2,570	100.0	43.9	44.8	11.3
55 to 64 years.....	461	100.0	55.6	30.5	14.0
65 years and over.....	92	100.0	68.7	15.7	15.5
Women					
Total, 20 years and over.....	1,763	100.0	54.6	30.8	14.6
20 to 24 years.....	138	100.0	58.3	28.7	12.9
25 to 54 years.....	1,239	100.0	51.1	33.3	15.6
55 to 64 years.....	287	100.0	61.4	24.5	14.1
65 years and over.....	99	100.0	72.6	20.3	6.9
WHITE					
Total, 20 years and over.....	4,397	100.0	49.6	37.9	12.5
Men.....	2,913	100.0	46.0	42.6	11.4
Women.....	1,484	100.0	56.7	28.7	14.6
BLACK					
Total, 20 years and over.....	602	100.0	43.8	44.7	11.6
Men.....	358	100.0	44.9	46.4	8.5
Women.....	244	100.0	42.2	42.2	15.7
HISPANIC ORIGIN					
Total, 20 years and over.....	282	100.0	47.4	45.2	7.3
Men.....	189	100.0	48.1	43.6	8.1
Women.....	93	100.0	46.2	48.1	5.7

^{1/} Data refer to persons with tenure of three or more years who lost or left a job between January 1979 and January 1984 because of plant closings or moves, slack work, or the abolishment of their positions or shifts.

NOTE: Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

Table 3. Workers who were displaced from jobs between January 1979 and January 1984 by age, sex, race, Hispanic origin, and tenure when job ended

(Percent)

Age, sex, race, and Hispanic origin	Total/ (thousands)	Total	3 to 4 years	5 to 9 years	10 to 14 years	15 to 19 years	20 or more years	Median years on lost job
TOTAL								
Total, 20 years and over.....	5,091	100.0	36.2	33.6	14.7	6.7	8.8	6.1
25 years and over.....	4,749	100.0	33.5	34.5	15.5	7.1	9.4	6.5
25 to 54 years.....	3,869	100.0	37.9	36.9	14.5	5.9	4.7	5.8
55 to 64 years.....	748	100.0	15.5	23.2	21.2	12.2	27.9	12.4
65 years and over.....	191	100.0	14.6	31.1	12.3	11.9	30.0	11.9
Men								
Total, 20 years and over.....	5,328	100.0	34.6	31.6	15.8	7.4	10.6	6.6
25 years and over.....	5,123	100.0	31.8	32.6	16.5	7.8	11.3	7.0
25 to 54 years.....	2,570	100.0	35.8	35.2	16.2	6.7	6.1	6.2
55 to 64 years.....	461	100.0	12.9	19.5	19.0	13.0	35.5	14.4
65 years and over.....	92	100.0	14.3	25.0	12.1	12.8	35.8	14.3
Women								
Total, 20 years and over.....	1,763	100.0	39.4	37.4	12.6	5.3	5.3	5.7
25 years and over.....	1,625	100.0	36.7	38.2	13.6	5.8	5.7	5.9
25 to 54 years.....	1,239	100.0	42.4	40.4	11.1	4.2	1.9	5.5
55 to 64 years.....	287	100.0	19.7	29.1	24.7	11.0	15.5	10.2
65 years and over.....	99	100.0	14.9	36.9	12.5	11.0	24.7	9.8
WHITE								
Total, 20 years and over.....	4,397	100.0	36.3	33.5	14.8	6.5	8.9	6.1
Men.....	2,913	100.0	34.7	31.8	15.8	7.2	10.6	6.5
Women.....	1,484	100.0	39.3	36.9	12.9	5.2	5.7	5.7
BLACK								
Total, 20 years and over.....	602	100.0	36.6	34.4	14.0	7.2	7.8	6.1
Men.....	358	100.0	33.8	30.2	16.8	8.2	10.9	7.0
Women.....	244	100.0	40.7	40.4	9.8	5.8	3.3	5.5
HISPANIC ORIGIN								
Total, 20 years and over.....	282	100.0	37.9	32.4	13.9	6.2	9.7	5.9
Men.....	189	100.0	32.6	30.5	18.7	7.0	11.2	7.0
Women.....	93	100.0	48.5	36.4	4.0	4.3	6.7	5.1

1/ Data refer to persons with tenure of three or more years who lost or left a job between January 1975 and January 1984 because of plant closings or moves, slack work, or the abolishment of their positions or shifts.

NOTE: Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

Table 4. Employment status of displaced workers by industry and class of worker of lost job, January 1984

(Percent)

Industry and class of worker of lost job	Total ^{1/} (thousands)	Total	Employed	Unemployed	Not in the labor force
Total, 20 years and over ^{2/}	5,091	100.0	60.1	25.5	14.4
Nonagricultural private wage and salary workers.....	4,700	100.0	59.8	25.8	14.4
Mining.....	150	100.0	60.4	31.0	8.6
Construction.....	401	100.0	55.0	30.7	14.3
Manufacturing.....	2,483	100.0	58.5	27.4	14.1
Durable goods.....	1,675	100.0	58.2	28.9	12.9
Lumber and wood products.....	81	100.0	67.9	19.1	13.0
Furniture and fixtures.....	65	100.0	(3)	(3)	(3)
Stone, clay, and glass products.....	75	100.0	47.5	30.5	22.0
Primary metal industries.....	219	100.0	45.7	38.7	15.6
Fabricated metal products.....	173	100.0	62.0	32.2	5.8
Machinery, except electrical.....	396	100.0	62.3	27.4	10.3
Electrical machinery.....	195	100.0	48.2	34.5	17.3
Transportation equipment.....	354	100.0	62.6	26.0	11.4
Automobiles.....	224	100.0	62.9	24.0	13.1
Other transportation equipment.....	130	100.0	62.1	29.4	8.5
Professional and photographic equipment.....	54	100.0	(3)	(3)	(3)
Other durable goods industries.....	62	100.0	(3)	(3)	(3)
Non-durable goods.....	808	100.0	59.1	24.2	16.7
Food and kindred products.....	175	100.0	52.5	32.6	15.0
Textile mill products.....	80	100.0	59.8	26.2	13.9
Apparel and other finished textile products.....	132	100.0	63.0	14.2	22.8
Paper and allied products.....	60	100.0	(3)	(3)	(3)
Printing and publishing.....	103	100.0	58.0	22.9	19.1
Chemical and allied products.....	110	100.0	64.0	27.3	8.7
Rubber and miscellaneous plastics products.....	100	100.0	62.8	18.3	18.8
Other non-durable goods industries.....	49	100.0	(3)	(3)	(3)
Transportation and public utilities.....	336	100.0	57.9	26.8	15.3
Transportation.....	280	100.0	58.8	30.5	10.7
Communication and other public utilities.....	56	100.0	(3)	(3)	(3)
Wholesale and retail trade.....	732	100.0	61.4	21.6	16.9
Wholesale trade.....	234	100.0	69.6	22.0	8.4
Retail trade.....	498	100.0	57.6	21.5	20.9
Finance, insurance, and real estate.....	93	100.0	78.5	12.4	9.1
Services.....	506	100.0	65.0	20.5	14.5
Professional services.....	187	100.0	64.0	19.8	16.1
Other service industries.....	318	100.0	65.6	20.9	13.5
Agricultural wage and salary workers.....	100	100.0	69.9	22.9	7.2
Government workers.....	248	100.0	63.3	18.7	18.0
Self-employed and unpaid family workers.....	25	100.0	(3)	(3)	(3)

^{1/} Data refer to persons with tenure of three or more years who lost or left a job between January 1979 and January 1984 because of plant closings or moves, slack work, or the abolishment of their positions or shifts.

^{2/} Total includes a small number who did not report industry or class of worker.

^{3/} Data not shown where base is less than 75,000.

Table 5. Employment status of displaced workers by occupation of lost job, January 1984

(Percent)

Occupation of lost job	Total/ (thousands)	Total	Employed	Unemployed	Not in the labor force
Total, 20 years and over ^{2/}	5,091	100.0	60.1	25.5	14.4
Managerial and professional specialty.....	703	100.0	74.7	16.6	8.8
Executive, administrative, and managerial.....	444	100.0	75.7	15.6	8.7
Professional specialty.....	260	100.0	72.9	18.2	8.9
Technical, sales, and administrative support.....	1,162	100.0	60.6	21.1	18.3
Technicians and related support.....	122	100.0	67.9	25.3	6.8
Sales occupations.....	468	100.0	66.7	14.6	18.7
Administrative support, including clerical.....	572	100.0	54.1	25.5	20.5
Service occupations.....	275	100.0	51.0	24.1	24.9
Protective service.....	32	100.0	(3)	(3)	(3)
Services, except private household and protective.....	243	100.0	53.0	23.6	23.4
Precision production, craft and repair.....	1,042	100.0	61.6	26.1	12.3
Mechanics and repairers.....	261	100.0	61.3	29.3	9.4
Construction trades.....	315	100.0	63.2	23.8	13.0
Other precision production, craft, and repair.....	467	100.0	60.8	25.8	13.4
Operators, fabricators, and laborers.....	1,823	100.0	54.6	31.6	13.7
Machine operators, assemblers, and inspectors.....	1,144	100.0	56.0	27.5	16.5
Transportation and material moving occupations.....	324	100.0	63.8	28.7	7.5
Handlers, equipment cleaners, helpers, and laborers.....	355	100.0	41.8	47.6	10.6
Construction laborers.....	55	100.0	(3)	(3)	(3)
Other handlers, equipment cleaners, helpers, and laborers.....	300	100.0	42.0	47.0	11.0
Farming, forestry, and fishing.....	68	100.0	(3)	(3)	(3)

1/ Data refer to persons with tenure of three or more years who lost or left a job between January 1979 and January 1984 because of plant closings or moves, slack work, or the abolishment of their positions or shifts.

2/ Total includes a small number who did not report occupation.

3/ Data not shown where base is less than 75,000.

Table 6. Employment status and area of residence in January 1984 of displaced workers by selected characteristics
(Numbers in thousands)

Characteristic	Total	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
WORKERS WHO LOST JOBS										
Total.....	5,091	260	794	1,206	426	664	378	484	211	667
Men.....	3,328	155	530	772	282	428	236	347	152	427
Women.....	1,763	105	264	434	145	236	143	137	59	241
REASON FOR JOB LOSS										
Plant or company closed down or moved.....	2,492	118	410	556	208	339	204	231	103	323
Slack work.....	1,970	106	269	513	164	236	132	211	83	256
Position or shift abolished.....	629	36	115	138	54	89	42	42	26	88
INDUSTRY OF LOST JOB										
Construction.....	481	16	68	88	36	81	34	63	30	63
Manufacturing.....	2,514	158	414	658	210	296	189	215	58	315
Durable goods.....	1,686	94	260	514	137	175	107	142	40	218
Nondurable goods.....	828	64	154	145	73	122	82	73	18	97
Transportation and public utilities.....	352	14	61	83	34	34	33	41	19	32
Wholesale and retail trade.....	740	41	100	182	68	132	40	54	32	90
Finance and service industries..	648	22	122	133	45	70	32	54	39	132
Public administration.....	84	2	10	22	5	13	4	8	5	16
Other industries ^{2/}	272	5	20	40	28	38	45	49	27	19
EMPLOYMENT STATUS IN JANUARY 1984										
Employed.....	3,058	171	428	621	276	461	209	344	148	399
Unemployed.....	1,299	46	225	400	96	117	113	85	33	181
Percent less than 5 weeks.....	22.1	(3)	24.1	21.2	13.0	29.4	17.3	25.4	(3)	18.4
Percent 27 weeks or more.....	38.8	(3)	36.8	47.2	47.5	25.5	51.7	29.8	(3)	28.0
Not in the labor force.....	733	41	141	185	54	85	56	55	30	86

1/ Data refer to persons with tenure of three or more years who lost or left a job between January 1979 and January 1984 because of plant closings or moves, slack work, or the abolishment of their positions or shifts.

2/ Includes a small number who did not report industry.

NOTE: Data not shown where base is less than 75,000.

NOTE: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont compose the New England Division; New Jersey, New York, and Pennsylvania compose the Middle Atlantic Division; Illinois, Indiana, Michigan, Ohio, and Wisconsin compose the East North

Central Division; Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota compose the West North Central Division; Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia compose the South Atlantic Division; Alabama, Kentucky, Mississippi, and Tennessee compose the East South Central Division; Arkansas, Louisiana, Oklahoma, and Texas compose the West South Central Division; Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming compose the Mountain Division; Alaska, California, Hawaii, Oregon, and Washington compose the Pacific Division.

Table 7. Characteristics of new job of displaced workers who lost full-time wage and salary jobs and were reemployed in January 1984 by industry of lost job

(In thousands)

Industry of lost job	Total reemployed January 1984	Part- time job	Full-time wage and salary job					Self employ- ment or other full- time job
			Total ^{1/}	Earnings relative to those of lost job				
				20 percent or more below	Below, but within 20 percent	Equal or above, but within 20 percent	20 percent or more above	
Total who lost full-time wage and salary jobs ^{2/} ...	2,841	357	2,256	621	320	571	533	218
Construction.....	253	26	199	48	30	47	61	28
Manufacturing.....	1,418	151	1,200	366	171	280	247	67
Durable goods.....	954	106	797	281	102	181	155	51
Primary metal industries.....	98	14	77	40	5	22	5	7
Steel ^{3/}	78	14	59	33	3	14	5	4
Other primary metals.....	20	-	18	7	2	9	-	2
Fabricated metal products.....	102	12	81	30	6	21	16	9
Machinery, except electrical.....	244	17	215	77	34	39	40	12
Electrical machinery.....	94	10	84	26	12	14	22	-
Transportation equipment.....	219	30	174	66	22	42	34	14
Automobiles.....	141	19	115	43	16	21	26	7
Other transportation equipment.....	77	11	59	23	6	21	8	7
Nondurable goods.....	464	45	403	85	69	105	92	16
Transportation and public utilities.....	191	15	154	40	22	44	27	22
Wholesale and retail trade.....	399	72	296	61	41	79	85	31
Finance and service industries.....	378	58	270	59	35	83	74	50
Public administration.....	48	4	42	11	5	7	18	2
Other industries ^{4/}	153	31	104	36	16	24	22	18

^{1/} Includes 721,000 persons who did not report earnings on lost job.^{2/} Data refer to persons with tenure of three or more years who lost or left a full-time wage and salary job between January 1979 and January 1984 because of plant closings or moves, slack work, or their positions or shifts were abolished.^{3/} Includes blast furnaces, steelworks, rolling and finishing mills, and iron and steel foundries.^{4/} Includes a small number who did not report industry.

Representative HAWKINS. In terms of those who were employed or reemployed in services, do you have a breakdown of what services are included? You said that one in every eight gained jobs in business services. Then you say much of this growth has been in personal supply and data processing services. We have no idea of how those services compared with manufacturing jobs, whether or not they were low paying or higher paying jobs. Would you count those two as both things?

Ms. NORWOOD. Many of those jobs are both, you know, there are all kinds of jobs in the business service sectors. Many of them are high-paying jobs. Some of them, of course, are not. It is, I think, rather difficult to look at that without specific occupational wage information. And we have been trying to do that in the Bureau, and I'm pleased that we will be able to expand some of that work in the future.

Representative HAWKINS. Now in terms of another force that is happening, especially in the Southwest, due to immigration, there's a tremendous increase in the number of undocumented workers in the Southwest. Their visibility is not always apparent. Many of them live in alleyways. Families, many families double up. I'm sure the census will never discover them. I'm wondering whether or not in your household survey, in the surveys that you conduct, whether or not there is an unknown factor of these individuals who are usually not visible to anyone except those who are familiar with those communities. I know that there is a tremendous number of blacks, black males, who are always overlooked. They could be on a slow boat to China, as far as any survey is concerned. And there's some areas where the surveyors never go into, because for cultural reasons, they just don't penetrate.

Now to what extent is this apparent to you in the surveys that you conduct?

Ms. NORWOOD. We have reviewed with some care, in a number of different ways, the problems, both of the undercount of the census and of the problem of undocumented workers, illegal immigration, as well as people who are employed, but who are off the book, for one reason or another, to evade taxation or for some other reason. It is really very difficult to get a handle that we can all rely on in that area. We do believe, however, that in general, we get from the household survey a great deal of that information.

We did a study recently examining all the estimates that had been made by private researchers of the amount that had been missed in wages, prices, productivity, and employment. We found that most of those people who come up with the estimates do not really understand the manner in which the surveys are conducted and the safeguards that we have and the kind of probing questions that we have. I would not want you to think that I believe there is no problem at all here. There is a problem, but I think it is not of the magnitude that some estimates that have been published would make us believe. This is an issue that most of the developed and even some of the developing countries of the world are interested in.

We have been discussing this problem at a working party of employment and unemployment that I chair at the OECD, which

meets once a year to try to keep up with new techniques, and we're doing the best job we can with it.

There are other issues that I'm sure you, in particular, are very much aware of. I met recently in Texas with the Governors' Committee looking at economic development. And as you know, along with the Mexican border, they have very, very high unemployment rates. The difficulty is that the more they attract industry, the more people come across the border. And so it's kind of being on a treadmill to create jobs in that area, and yet once the jobs are there, people tend to move in, generally undocumented workers.

So there are parts of the country where that is a very special kind of problem, and it's very difficult to deal with.

Representative HAWKINS. I don't want to continue to ask these questions and delay you, but just to conclude, at least, my questioning.

There are several other groups that I'm concerned about as to whether or not they are recognized. One is the economy which doesn't appear to be visible. That is, individuals in the underworld who are not actually gainfully employed, but employed in their own way. How is this group—it is my understanding, and I've seen estimates that place it as high as several million, 2 or 3 million persons, how are these individuals treated for the purpose of determining their status as unemployed?

Ms. NORWOOD. Well, as you know, Congressman Hawkins, we have two surveys. One survey is based on payroll records. If a person is not on the payroll record, that person does not appear in that survey, but the other survey, the household survey, in that survey, we try to include everyone, whether the activity is illegal or not, whether the person is in the country legally or illegally. We cannot give you specific information about the numbers, because, for obvious reasons, we do not go to a household and say, are you really here illegally, or are you engaged in some illegal work?

We do believe, however, that using some of the survey techniques that we have, that we are getting a lot of people who probably are engaged in activities that they might not report in other cases.

Representative HAWKINS. You're missing a lot too.

Ms. NORWOOD. We may well be missing a lot, and on the other hand, as I said earlier, the study that we've done of the way in which these estimates of the kind you spoke of before were derived, they don't stand up at all. That does not mean that we don't have a problem. It means, I think that we can't quantify the extent of the problem.

Representative HAWKINS. Thank you very much, and Mr. Chairman, thank you.

Representative OBEY [presiding]. Ms. Norwood, there are a number of questions that Senator Proxmire wanted to ask for the record. I'll submit them, and if you'll provide responses, I'll appreciate it.

Ms. NORWOOD. We'll be glad to.

Representative OBEY. Thank you very much for coming.

Ms. NORWOOD. Thank you very much.

[Whereupon, at 10:39 a.m., the committee adjourned, subject to the call of the Chair.]

[The following additional written questions and answers were subsequently supplied for the record:]

RESPONSE OF HON. JANET L. NORWOOD TO ADDITIONAL WRITTEN QUESTIONS POSED BY
SENATOR PROXMIRE

Question 1. This morning's Wall Street Journal reports: "Retailers generally reported small sales gains for February as merchants struggled to reduce big inventories left over from last year's sluggish holiday selling season."

What does this mean for future employment growth in the wholesale and retail trades? Could this mean future declines in consumer goods production and employment?

Answer. Both retail sales and inventories are extremely volatile on a month-to-month basis and preliminary estimates for both are often subject to large revisions. If retail sales were to slow down significantly for a long period, of course this would tend to have a depressing effect on employment. However, the outlook studies I have seen—DRI, Wharton, etc.—continue to forecast real growth in consumption in 1985. There are also indications that retailers have been keeping a close eye on inventories and making considerable effort to control their inventory-to-sales ratios.

Question 2. You report that the level and rate of unemployment have changed little since last May. This means that for the better part of a year, 8 and one-half million Americans were out of work and that the unemployment rate remained above 7 percent.

In your expert view, has the so-called "full employment" level of unemployment increased from the 4 percent level of 20 years ago to over 7 percent today? If this is so, how do you explain it?

Answer. The "full employment" unemployment rate is generally interpreted to mean the unemployment rate at which further stimulation to the economy would run the risk of stimulating inflation. While economists do not agree fully as to what that precise rate is, there is general agreement that the rate has been trending upward. In the mid-1950's, economists generally believed that the rate was about 3 percent. By the early 1960's the goal was changed to 4 percent. The 1973 Economic Report of the President stated that, "... it probably lies between 6 and 7 percent." I am attaching an article on this subject written a few years ago by several BLS staff members. The article discusses some of the reasons for the upward trend.

Question 3. This month's data show that once again the manufacturing industries' recovery lags far behind that of the service sectors' recovery. How much of the difference in the rate of recovery can you attribute to the increased importance of foreign made goods?

Answer. Imports of manufactured goods are having an effect on the overall economy and on particular industries. Employment in several industries has been declining for a number of years. In some, like apparel, the employment lost during the recession has not yet been regained. Others, such as blast furnaces and basic steel and textile mill products, have had employment continuing to decline even after the recession trough. There are many reasons for the changes in the competitive position of these industries; their problems cannot all be attributed to imports.

Imports have exerted a downward pull on inflation, and, in fact, some studies have shown that increased imports have been an important factor in slowing down the rate of increase in prices, a slowdown that has had a positive effect on the economy.

Question 4. Since the manufacturing industries are concentrated in the East and Midwest and those industries have had little or no employment growth in almost a year, could you compare the rates of change in employment and unemployment over the past 9 months by region of the country?

Answer. The following table shows employment and unemployment for the nine Census divisions in January 1984 and January 1985. These are the most recent data available. Because these data are not adjusted for seasonality, comparisons are limited to changes from the same month a year earlier.

CIVILIAN EMPLOYMENT AND UNEMPLOYMENT BY CENSUS DIVISION, JANUARY 1984-JANUARY 1985

	United States	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Employment (thousands):										
January 1984.....	101,270	5,963	15,569	17,420	7,740	17,006	5,881	11,030	5,457	14,756
January 1985.....	104,344	6,174	16,078	17,944	7,892	17,706	6,105	11,206	5,683	15,426
Percent change.....	3.0	3.5	3.3	3.0	2.0	4.1	3.8	1.6	4.1	4.5
Unemployment (thousands):										
January 1984.....	9,755	432	1,467	2,117	666	1,395	743	985	458	1,555
January 1985.....	9,131	340	1,294	1,986	643	1,317	697	970	445	1,435
Percent change.....	-6.4	-21.4	-11.8	-6.2	-3.6	-5.6	-6.3	-1.6	-2.7	-7.7
Unemployment rate (%):										
January 1984.....	8.8	6.8	8.6	10.8	7.9	7.6	11.2	8.2	7.7	9.5
January 1985.....	8.0	5.2	7.4	10.0	7.5	6.9	10.2	8.0	7.3	8.5

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics Program, March 1985.

Question 5. As you know, the President has decided not to ask the Japanese to continue their voluntary restraints on the number of cars they export to the United States. As our expert on both consumer prices and employment, could you estimate the effects of a 500,000 increase in the number of Japanese cars imported into the United States on auto prices and domestic auto industry employment?

Answer. I cannot provide an estimate in response to your question. In general, we know that increased imports and greater competition tend to lower prices. The effect of a lower rate of inflation tends to make more income available for other purposes which could stimulate new demand for other goods and services and thus increase employment. It may well be that a fall in price could even increase the overall demand for cars and other goods.

The relationships involved in assessing these issues are extremely complex, and the work cannot be done with the statistical accuracy required for a BLS product. For this reason, the BLS does not make estimates in this field.

Several studies on this subject have been made, however. Three of these studies that have been called to my attention are:

"Import Quotas and the Automobile Industry: The Costs of Protectionism" by Robert W. Crandall, Brookings Review, Summer 1984.

"Aggregate Costs to the United States of Tariffs and Quotas on Imports," by David G. Tarr and Morris E. Morkre, Bureau of Economics Staff Report to the Federal Trade Commission, December 1984.

"A Review of Recent Developments in the U.S. Automobile Industry Including an Assessment of the Japanese Voluntary Restraint Agreements," United States International Trade Commission publication 1648, February 1985.

A review of these studies indicates general agreement that the voluntary restraint agreements (VRA) have affected both domestic and Japanese auto sales and prices in the United States market, United States employment levels, and United States consumer costs. All of the studies agree that the costs of the VRAs to the United States consumer are very large. The estimates of the employment gain resulting from the VRA appear to differ widely. Of course, all the estimates are highly dependent on the assumptions made and the time period covered. The range of the employment estimates illustrates the difficulty in trying to develop precise estimates of the impact of the VRAs.

What is a current equivalent to unemployment rates of the past?

The results of various attempts to quantify how much changes in the labor force, unemployment insurance, and minimum wages have affected unemployment rates are reasonably close; but no total effect on jobless rates can be determined

JOSEPH ANTOS, WESLEY MELLOW,
AND JACK E. TRIPLETT

The economic recovery which began in 1975 focused attention once more on the "full employment" target for U.S. macroeconomic policy. During the mid-1950's, economists generally believed that when 3 percent of the labor force was unemployed the economy had used up the slack in resources and further stimulation would risk breeding inflation. By the early 1960's, the generally accepted full employment goal was changed to 4 percent on the belief that this figure represented "frictional" unemployment, and thus the practical minimum level of unemployment that could be reached with conventional fiscal and monetary policy. Recently, however, a number of economists have argued that various changes in the economy have pushed the "full-employment unemployment rate" to values higher than the traditional 4 percent.

A number of articles have appeared which have attempted to quantify the effects on the unemployment rate of one or more of the economic changes which have occurred over the past 15 or 20 years. We have surveyed the major articles on this subject, and review their findings and methodologies in this article. Before going into this analysis, the following interpretive points must be made.

Joseph Antos and Wesley Mellow are economists in the Office of Research Methods and Standards, Bureau of Labor Statistics. Jack E. Triplett is Assistant Commissioner of that office.

36

Reprinted from March 1979
Monthly Labor Review

1. Computing the current unemployment rate that is comparable to (say) a 4-percent rate 15 or 20 years ago is *not* the same thing as determining the noninflationary rate in today's economy, even if 4 percent was the noninflationary rate in the earlier period. The reason is that inflation depends on a number of factors in addition to the wage-cost pressures embodied in traditional Phillips curve analysis, including pressures on capacity (which may generate upward movement in nonlabor costs), external shocks (such as energy or agricultural shortages), and inflationary expectations. If decisionmakers, buyers, and so forth, build into contracts, purchase orders, and other decisions some expected inflation rate, then the unemployment rate corresponding to price stability will be higher than it would be if inflationary expectations were absent. Thus the noninflationary unemployment rate will shift with changes in expectations (as well as the other factors mentioned above); accordingly, one cannot determine the noninflationary unemployment rate solely from analysis of labor market effects. Some recent literature acknowledges this point by speaking of the full-employment unemployment rate as the rate which will not *accelerate* the rate of inflation.

2. In the absence of a comprehensive, integrated study of the comparability question, it is necessary to combine the results of independent studies on factors such as changes in labor force composition, unemployment insurance, minimum wages, and so

U.S. DEPARTMENT OF LABOR
Bureau of Labor Statistics

forth. Interaction effects, however, cause serious analytic problems. There are two categories of these effects:

First, there are interactions among the variables studied (as, for example, when a change in a social or governmental program also influences labor force composition, and separate estimates are computed for the impact on unemployment of the program change and the change in the composition of the labor force). In these cases, the whole may not be equal to the sum of the separately estimated effects.

Second, there are interactions between the variables studied and cyclical unemployment. Several of the factors discussed later in this article have a greater impact on the unemployment rate at less than full employment than they do at full employment. In these cases, finding the 1979 unemployment rate that is comparable to a 4-percent rate in earlier years is not the same thing as accounting for changes in the *actual* rates between those dates.

Unfortunately, it is seldom possible to extricate interaction effects from existing studies. In the absence of a research design that would account for interaction effects, we have grave reservations about adding up individual estimates obtained from independent studies in the attempt to compute a point estimate of a current unemployment rate which would be comparable to those of some past period. We believe the combined total would be considerably less accurate than the degree of accuracy the components would suggest.

3. Many relevant studies were not set up to permit translation of results into effects on the unemployment rate. For example, Edward Gramlich's minimum wage study, discussed later, estimates employment *elasticities* (to changes in the minimum) not estimates of *effects* on the unemployment rate. Accordingly, results of some studies on relevant variables were not incorporated in this article. In addition, some factors mentioned in various studies as contributing to the noncomparability question have not been analyzed in such a way as to permit their survey here.

Labor force composition effects

Conceptual and methodological considerations. Compositional effects have frequently been estimated by computing "weighted" unemployment rates; that is, applying the labor force proportions of some base period to the actual unemployment rates of various demographic groups in the comparison period. Such weighting exercises have been carried out by, among others, the Council of

Economic Advisers, Phillip Cagan, and Paul O. Flaim.¹ All the researchers used age-sex demographic groups, and Flaim included race as well. Results of the computations differ because of time spans covered and also because of varying degrees of disaggregation (from 10 demographic groups in Cagan's computation to 22 groups in Flaim's). Perhaps of more importance, however, the results were originally reported on different bases, because researchers have made different decisions with respect to the interaction term inherent in a weighted unemployment rate analysis.

To clarify this point, consider the following definition. The change in the overall unemployment rate between some initial base year (*b*) and some other year (*t*) is composed of the factors in the following expression:

$$(1) U^t = U^b + \sum (w_i^b \Delta u_i + u_i^b \Delta w_i + \Delta u_i \Delta w_i),$$

$$\text{or (1.a)} \quad U^t - U^b = \sum (w_i^b \Delta u_i + u_i^b \Delta w_i + \Delta u_i \Delta w_i),$$

where U^b and U^t are overall unemployment rates, w_i is the labor force proportion of the *i*th demographic group, u_i is the unemployment rate for that same group, and Δ indicates the change in the appropriate variable between periods *b* and *t*. Of course, the two unemployment rates U^b and U^t are defined by:

$$(2) \quad U^b = \sum w_i^b u_i^b$$

$$U^t = \sum w_i^t u_i^t$$

In most of the literature on this subject, the "weighted" unemployment rate that has been computed to analyze the compositional question consists of:

$$(3) \quad \text{"weighted"} \quad U \equiv \sum w_i^b u_i^t = U^b + \sum (w_i^b \Delta u_i),$$

that is, a computation incorporating only the first term from the bracketed terms of equation (1). However, as a measure of the effect of the change in labor force composition, this is strictly correct only if the interaction term ($\Delta u_i \Delta w_i$), the last bracketed term in equation (1), is close to zero and empirically it is not. The importance of this is indicated by the following economic interpretation of the separate terms of equation (1.a).

The first term ($\sum w_i^b \Delta u_i$) gives the change in the overall unemployment rate that would have occurred had labor force proportions remained unchanged and had unemployment rates applicable to specific age-sex groups changed as they actually did. We refer to this as the "pure cyclical effect."

Of course, part of the change in actual age-sex specific unemployment rates was probably caused

by changing labor force composition (for example, a larger cohort of young workers implies a "crowding" effect in that grouping, and a consequent rise in the youth unemployment rate, unless the number of entry-level jobs expands sufficiently).² Therefore, in the real economy, labor force proportions and specific unemployment rates are interrelated. This change in demographic unemployment rates associated with changing labor force proportions is part of the interaction term.

The second term of equation (1.a)— $\sum u_i^* \Delta w_i$ —may be interpreted as the change in the overall unemployment rate that would have occurred if demographic unemployment rates had remained unchanged when labor force proportions changed. In table 1, this is referred to as the "direct compositional effect." This computation does not measure any change in labor force proportions caused by changes in demographic unemployment rates, an effect which would be introduced through labor force participation rates via what is usually referred to as the "discouraged worker" effect. This effect (or rather, the relative sizes of the discouraged worker effects for different demographic groups) is also a portion of the interaction term.

Thus, the final term in equation (1.a), the interaction term ($\sum \Delta u_i \Delta w_i$) is composed of the

"crowding" effect on age-specific unemployment rates and the discouraged worker effect on labor force participation rates (and hence on labor force proportions). Disentangling the two effects cannot be done through a mechanical procedure such as equation (1), which is simply a mathematical truism, but requires a more sophisticated investigation of economic behavior than has so far been carried out.

Two further observations are appropriate. First, the interaction term is large, relative to the other terms of equation (1.a), so the above discussion is of considerable importance in interpreting the results: Empirically, the interaction term seems to be half or more the size of the "direct" compositional effect computed from equation (1.a). Thus, the way the interaction term is handled makes a great amount of difference in the determination of the "comparable" unemployment rate.

Second, there is no absolutely correct way to handle the interaction term, precisely because it is an interaction effect attributable to both changes in labor force proportion and changes in age-sex specific unemployment rates. Some computations of "weighted" unemployment rates have ignored it, which is equivalent to the economic assumption that there is no "crowding" and there are no "discouraged workers." On the other hand, the

Table 1. Estimates of the effect of changes in labor force composition on the unemployment rate, various periods

Researcher and period	Number of age-sex groups	Direct compositional effect ¹	Interaction term ²	Difference between actual and counterfactual rates (sum of columns 3 and column 4)	Change in computed rate over the period	Comments
(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEA ³ 1956-73 ..	14	---	---	0.72	(*)	No estimate of the interaction term. These estimates were taken from the "CEA" series presented in Wachter, table 10 (because the latter has more information than does the CEA Report) figure obtained by subtraction; thus, the estimate implicitly assumes that the entire interaction term is associated with "crowding" effects. (See text.)
1956-75 ..	14	---	---	1.01	(*)	
1955-76 ..	14	---	---	9	(*)	From 1977 Annual Report, p. 51. Details of the calculation not reported.
Goggin ⁴ 1956-73 ..	10	0.46	0.22	68	(*)	Presents interaction term in a footnote, does not add it to the direct effect.
Flann ⁵ 1957-73 ..	22	---	---	75	(*)	Author's preferred computation obtained by adding one-half of the interaction term to the direct effect, giving 0.8 as the total effect.
1957-76 ..	22	55	49	104	(*)	
Perry (UPP) 1956-75 ..	14	---	---	---	1956=3.5 1975=7.1	None
Wachter (URP) 1956-75 ..	14	---	---	---	1956=4.0 1975=5.5	None

¹Direct compositional effect = $\sum u_i^* \Delta w_i$

(See equation 1 in the text.)

²Interaction term = $\sum \Delta u_i \Delta w_i$ (See equation 1 in the text.)

³Computerized methodologies used

⁴Not applicable

⁵Other methodologies used

whole interaction effect cannot be added in to either of the two weighted unemployment rates that could be computed from the first two terms of equation (1.a) precisely because it belongs, in undetermined proportions, 'o both. Arbitrarily splitting the interaction term among the two rates is not appropriate either. The only appropriate way to present the results is to report direct compositional effects and interactions terms separately, and this is the way it is handled in table 1.

The estimates. Table 1 summarizes several estimates of the effect of changes in labor force composition using fixed-weight unemployment rates. Entries in the table indicate the magnitude of the effects of changes in labor force composition over the designated period. For example, Cagan estimates that the direct compositional effect added 0.46 percentage points to the full-employment unemployment rate between 1956 and 1973. Allowing for different periods covered by the estimates, agreement appears close. All three estimates of the "sum" (col. 3) for the year 1973 lie around 0.7 percentage points.

We prefer, however, to focus on the separate estimates of direct compositional and interaction effects because of the preceding analysis which argued that the sum of the two is undoubtedly an overstatement of the impact of labor force composition on the overall rate. The two estimates of the direct compositional effect put it at around half a point with the difference between the two undoubtedly attributable to the continued change in labor force composition between 1973 and 1976.

The only anomaly in table 1 relates to the size of the interaction term, which is considerably larger in Flaim's estimate than in Cagan's. The reason for this may be the fact that Flaim used more demographic groups, thus giving more leeway for interaction effects to show up. On the other hand, higher 1976 unemployment rates may show up disproportionately in the interaction term.

Taking account of the interpretative problems posed by the interaction term, application of the "fixed-weight" unemployment rate methodology leads to the following tentative conclusion: Changes in labor force composition appear to have added from one-half (the direct compositional effect) to one percentage point (the outside limit if the full interaction term is included) to the unemployment rate for 1976, compared to its value 20 years earlier.

Alternative methodologies. A major motivation for computing fixed-weight unemployment rates is a desire to obtain a better *summary measure* of excess

supply in labor markets than is provided by the official BLS rate. Though the concept of a *measure* of excess supply or excess demand is not very well defined in economics (at either the operational or theoretical levels), and methods for aggregating excess supply measures for individual labor markets into a *simple* summary measure for the economy are even less well understood, it is still appropriate to try to sharpen the notion of aggregate labor market excess supply by making reference to a more tightly defined concept. This, in our interpretation, is what George Perry and Michael Wachter attempt to do.

Perry adjusts a measure of lost hours for estimated hourly earnings (both expressed relative to the values applicable to prime-age males). Thus, his unemployment measure (U^p) is closely related (though not precisely equivalent) to a measure of earnings lost by unemployed labor. Though a measure of the economic loss due to unemployment is valuable, and may be defended as a better measure for the purpose Perry puts it to, the published BLS unemployment rate has never measured economic loss due to unemployment, so we cannot use changes in Perry's measure to evaluate the comparability of changes in the official BLS unemployment rate over time. As presented in Wachter, U^p moved from 3.5 in 1956 to 7.1 in 1975, but that does not imply that the equivalent BLS unemployment rate was 7.1.³

Perry's unemployment measure has been used as a proxy for excess demand in wage equations of the Phillips curve type, but it requires strong assumptions to argue that a wage-weighted measure of excess labor supply is the best construction for this purpose. Wachter's normalized unemployment rate (U_N) was constructed explicitly to meet this need.

Wachter's rate (U_N) is built up from age-sex groups' specific rates which are estimated from a statistical analysis, rather than from a weighting scheme. A regression is used to establish the relation between actual age-sex specific rates and the rate for prime-age males, at the same time controlling for changes in the age distribution of the population. (The objective is to capture the impact on age-sex specific rates of factors such as the postwar baby boom coming into the labor market.) Then, on the twin assumptions that the "noninflationary" or "full-employment" rate for prime-age males is 2.9 and constant over time, "normalized" unemployment rates are computed for each age-sex group by plugging the 2.9 value back into the regression. The estimated age-sex specific rates are then aggregated into the overall

U_N figure, using current labor force proportions for each year.

The procedure has been criticized⁴ but a detailed presentation of these criticisms would depart from the purpose of this article. However, three points should be made:

1. Wachter refers to his U_N as a "full employment unemployment rate" in the sense that it permits developing a figure which "denotes the same labor market tightness over time." Such an objective (a better measure of "labor market tightness") undoubtedly lies behind other attempts to adjust the unemployment rate in some fashion, so Wachter's U_N may be regarded as a relatively sophisticated attempt to get around the economic inadequacy of mechanical procedures such as fixed-weighting schemes.

2. Whether the measure is successful in doing what Wachter intends it to do is clearly debatable. He is duly cautious: "Unfortunately, few of the variables that are likely to affect the normalized unemployment rate can be easily quantified with the precision needed to estimate their impact on it . . . Hence the U_N measure of this paper is a crude proxy."⁵

3. Though U_N is developed as a measure to determine a noninflationary unemployment rate for analyzing wage inflation, there is no reason to believe that this measure defines uniquely an unemployment rate that can be used to target economic policy, essentially for the reason noted earlier in this article and stressed so often by Milton Friedman, Edmund Phelps, Phillip Cagan, and others.⁶ The noninflationary unemployment rate depends crucially on price expectations, as well as other economic factors.

Unemployment insurance

Many researchers have studied the impact that the unemployment insurance (UI) system has on unemployment, particularly duration of unemployment. Hamermesh analyzed 12 empirical studies on the topic and concluded that *for those receiving UI benefits* duration of unemployment is longer by about 2.5 weeks, and concluded that the UI system "induces an extra 0.51 percentage points of unemployment, through its effect on duration."⁷ Other researchers reach similar conclusions. In his study for the Joint Economic Committee, Martin Feldstein calculated that the total impact of the UI system increased the unemployment rate by 1.25 percentage points — 0.75 as a result of increased duration.⁸

However, for present purposes the relevant question is: "What effect have changes in the UI

Table 2. Estimates of the effects of changes in the Unemployment Insurance system on the noncyclical unemployment rate, 1956-77

Source of change	Change in rate
Increased coverage	+ .14
Change in magnitude of benefits	0
Supplemental Insurance Assistance Program (inclusion of seasonal workers)	+ .20
1974-75 extension of maximum weeks benefits may be paid	(-)
Total effect	+ .34

Not applicable to noncyclical computation.
SOURCE: Philip Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," *Contemporary Economic Problems* (Washington: American Enterprise Institute for Public Policy Research, 1977), p. 35.

system had on the unemployment rate?" and not, "What is the total effect of the UI system on the unemployment rate?" This is so because the 1956 unemployment rate was higher than it would have been had the UI system not existed then. Since 1956, the ratio of average UI benefits to average weekly earnings has increased by only 2.7 percentage points, so that a major part of the effect of the UI system on unemployment rates probably occurred prior to 1956.⁹

One study that does investigate the effect of changes in the UI system on the unemployment rate is that of Cagan (summarized in table 2). Cagan analyzes the following changes in the UI system since 1956: (1) Increases in the percentage of workers in the labor force who are covered by the UI system. He calculates the increase in covered workers over the period, applies typical estimates of the effect UI has on duration, and concludes that increased coverage increased the unemployment rate by 0.14 percentage point through its effect on duration. He made no allowance for any effect on unemployment incidence. (2) Increases in the magnitude of benefits could affect both the duration and incidence of unemployment. The increase in benefit levels since the late 1950's has been extremely modest: the ratio of benefits to average earnings increased only 2.7 percentage points. Consequently, Cagan ignores this as a source of possible influence on unemployment. (3) The Supplemental Insurance Assistance Program enacted in 1975 which extended coverage to many workers in seasonal industries (such as schoolteachers). Here, Cagan cites Alfred Tella's rough estimate that the program resulted in a 0.20-percentage-point increase in the unemployment rate. (4) Finally, Cagan ignores the 1974 and 1975 extensions of the time for receiving benefits, arguing that since such extensions occur only in times of high unemployment their effect on the rate when unemployment is low would be minor.

To summarize, Cagan estimates that changes in the UI system over the past 20 years have increased the noncyclical unemployment rate 0.34 percentage point. However, as Cagan¹⁰ points out, changes in the UI system may also increase the incidence of unemployment, but "there exists no accurate estimate of how much they increase it."

Minimum wages

Among the large number of studies of the economic effect of minimum wage laws, three studies (Jacob Mincer, Hyman B. Kaitz, and James F. Ragan, Jr.)¹¹ have used similar methodologies to estimate the effect of changes in minimum wages on the unemployment rates for demographic groups. (See table 3.) All have explicitly allowed for effects of withdrawal from the labor force (as well as disemployment impacts) and all used an "effective minimum wage" variable originally constructed by BLS.¹² The effective minimum wage expresses the minimum wage relative to a measure of average hourly earnings which is weighted for the proportion of employment covered under the minimum wage law.

Mincer's study found effects for young workers which substantially increased their unemployment rates (largest impacts were for men age 20-24 and for teenagers) with little impact on older workers. Cagan used Mincer's equations, combined with values for the effective minimum wage for 1974, to estimate that changes in the minimum wage from 1956 to 1974 contributed 0.63 percentage point to unemployment rates.

Kaitz and Ragan ran regressions not dissimilar to Mincer's for more detailed categories within the

teenage group. Ragan's more disaggregated regressions imply smaller estimates of unemployment among teenagers than one would obtain from Mincer's regressions. (Hence, plugging Ragan's equations into the calculation performed by Cagan would have decreased Cagan's estimate of the effect of minimum wage changes on the overall unemployment rate to about 0.35 percentage point.) By comparison, the earlier study by Kaitz found very little effect. We feel that the Kaitz conclusion is probably less in disagreement with the others than may at first appear because of the following:

1. There was very little trend in the effective minimum wage variable between the 1956 minimum wage changes and those that went into effect in 1967 and 1968. Therefore, the period studied by Kaitz (1954-68) ends at about the time the effects estimated by Ragan begin to show up.

2. Kaitz recognized that Government training programs had an effect on teenage unemployment that offset, to a great degree, the 1967 and 1968 minimum wage changes. Kaitz also recognized econometric problems with his approach, and we believe Ragan's procedure for handling this problem is better than that of Kaitz. Accordingly, Ragan's estimates are preferable.

3. Kaitz found large withdrawal effects. Ragan handles part of the withdrawal from the labor force problem by running separate regressions for teenagers enrolled in school. Again, Ragan's later work is an improvement on the pioneering effort by Kaitz.

Thus, these three studies are in rough agreement on the size of the effect of minimum wage changes on the unemployment rate, though Cagan's com-

Table 3. Studies of the effect of increases in the minimum wage on the unemployment rate, various periods 1954-74

Name	Period	Groups for which results computed	Range of estimates	Comments
Mincer	1954-69	10 demographic groups	4.5 to 11.3 for teens and young workers -1.4 to 1.9 for older workers	Computed from separate regressions for employment and labor force effects. No overall estimate.
Cagan	1956-74	overall rate	0.63 overall	Extrapolated Mincer's results to 1974 and combined the impacts for most affected groups (youth) to form an estimate of the impact on the overall unemployment rate.
Kaitz	1954-68	8 teenage demographic groups	net effect is essentially no change	Estimated separate employment and labor force equations (as did Mincer) but estimated unemployment effects directly from another regression. Found substantial labor force withdrawals which offset disemployment effects.
Ragan	1963-72	16 teenage demographic groups	1.6 to 21.8 for 16 groups 3.8 for total teenagers (implies an increase in overall unemployment rate of about 0.35)	Relates only to the effect of 1966 minimum wage changes on 1972 teenage unemployment rates (however there was very little change in effective minimum wage rates from 1956 to 1966, so may be taken as an estimate of the effect from 1956 to 1972 on teenage unemployment rates). Computed from regressions similar to those of Kaitz, required specification, and separate regressions for teenagers enrolled in school may account for difference in findings.

Using comparable methodologies

putation of the effect on the overall rate may be a little high in the sense that his 0.63 would have been smaller had he substituted Ragan's (more recent) teenage estimates for those of Mincer (but retaining Mincer's finding of large unemployment effects for men age 20-24, a group which was not studied by Ragan).

A different kind of study was done by Edward Gramlich¹³ who, as noted, estimated employment elasticities, rather than effects on the unemployment rate. However, if persons disemployed by the minimum wage withdraw from the labor force, employment elasticities cannot be used to estimate the effect on the unemployment rate. Moreover, Gramlich's minimum wage variable is the ratio of the statutory minimum to a *price* measure (real minimum wages), rather than relating the nominal minimum to other wages. If the minimum wage causes substitution of high wage for low wage workers (which Gramlich's own regressions suggest), then surely the minimum wage should have been related to a measure of other wages. Nevertheless, taking all of his regressions together, Gramlich finds that young workers are losers from minimum wage increases, not primarily because they are disemployed, but mainly because they are moved into part-time employment. This and his other findings are broadly consistent with the magnitudes and directions of the effects found in the Mincer study cited earlier.

A final, and quite different, study of the effect of minimum wages, is one done by Marvin Kosters and Finis Welch,¹⁴ who emphasize the distinction between cyclical unemployment and other types. It is well known that employment of teenagers and low-skilled workers fluctuates more than does that of skilled adult male workers. Kosters and Welch found that the minimum wage exacerbated these differing cyclical patterns:

Our evidence indicates that increases in the effective minimum wage over the period 1954-68 have had . . . the effect of . . . increasing vulnerability to cyclical changes in employment for the group most 'marginal' to the work force—teenagers. . . . And a disproportionate share of these unfavorable employment effects appears to have accrued to nonwhite teenagers.¹⁵

Applying their conclusions to the other studies cited in table 3 suggests that the minimum wage impact estimated by Cagan may be too high partly because those studies do not fully allow for the stage of the business cycle (or unemployment level) effects; that is, they estimate what is (roughly) an average effect over the cycle. Because recent unemployment rates are so much higher than those

experienced over the 1954-72 period covered in those studies, their results imply a substantially higher impact on the 1978 unemployment rate of minimum wage changes, though also implying that at low rates of overall unemployment, the minimum wage effect on unemployment would be much lower than Cagan's estimate given in table 3. As we are concerned with the comparability of the full-employment rate, Kosters and Welch's findings suggest that Cagan's estimate is too high.

At this point it is worth noting once again the role of the interaction effects emphasized at the beginning of the article.

1. If minimum wage changes cause withdrawals from the labor force, this obviously affects labor force composition, the effects of which were studied separately. Because in this case minimum wage-induced withdrawal serves to *reduce* the labor force composition estimates below what they would otherwise be (because the worker groups most affected have grown relative to other population groups), we infer that the combined effect of changes in minimum wages and in labor force composition would probably be greater than the separately estimated effects.

2. Kosters and Welch argue that the minimum wage serves to increase the cyclical swings in teenage unemployment. This interaction between a public policy and business cycle developments makes it difficult to specify precisely what "comparability" in unemployment rates would encompass.

Another factor not considered in any of the studies discussed thus far is J. Wilson Mixon's suggestion¹⁶ that offsetting adjustments in fringe benefits and working conditions may reduce the direct employment effects of the minimum wage, so that the ultimate effect shows up in a more complex way—through changes in turnover rates, as one instance—than envisioned in other existing studies. Differences in turnover rates among different demographic groups have often been cited as the reasons for differences in age and sex specific unemployment rates.¹⁷ The Mixon hypothesis about the economic impact of the minimum wage thus suggests an interaction effect with the demographic composition effects surveyed earlier. There is no existing information on the magnitude of this effect.

Considering results of all the minimum wage studies, plus probable interaction effects, we conclude that there are both upward and downward biases operating on the 0.6-percentage point estimate of the effect of the minimum wage that Cagan compiled, based on Mincer's work. We can

thus have no great confidence in the accuracy of this number, because we are unable at present to quantify these biases in order to take them into account in the estimate.

Other factors

As part of this review, we need to discuss certain factors influencing changes in the overall rate that have been mentioned in a variety of sources.

Multiworker families. An unemployed person may have less financial pressure and thus take longer to accept a new job if other members of his family are employed. Because the proportion of multiworker families has risen over the past 20 years, this factor has been hypothesized as contributing to a rise in measured unemployment. We can get a rough idea of the size of this effect by examining the influence of other family members' earnings on an unemployed individual's job search behavior.

In a recent study, John M. Barron and Wesley Mellow¹⁸ used data taken from the May 1976 Current Population Survey supplement on the jobseeking behavior of the unemployed to estimate a model of intensity of search effort; that is, hours spent looking for work. Their model includes as explanatory variables demographic characteristics, reason for unemployment, and unemployment insurance benefits, as well as variables indicating family income from welfare payments and the earnings of other family members. It is estimated that unemployed workers in families containing another employed member spend about 10 percent fewer hours per week looking for work.¹⁹

To translate an effect on time spent searching into an unemployment rate impact, we need to know how job search affects the probability of finding work. As an upper bound estimate, we assume that a given percent increase in hours per week spent searching for work implies an equivalent percent increase in the probability of becoming employed. In other words, if hours per week spent searching increases by 10 percent, we assume the probability of finding a job also increases by 10 percent. This yields an estimate of 0.42 percentage points for the total impact of multiworker families on the 1976 unemployment rate.²⁰

What we want, of course, is an estimate of the impact of change in the proportion of multiworker families over the 1956-76 period. As this proportion has moved from 38.3 percent of families with members in the labor force in 1956 to 52.9 percent in 1976, we adjust the 0.42 figure for this change. This results in an estimate that an increasing proportion of multiworker families was responsible for only 0.12 percentage points of the higher

unemployment rate of 1976. Thus, the multiworker family effect on the overall unemployment rate appears to be modest. Of course, the increase in multiworker families over the period may have increased the incidence of unemployment as well as its duration. We have no direct evidence on this.

Social programs. Increased welfare payments of various kinds might make not working more attractive than working at low-paying jobs, and thereby increase the number of people who are counted as unemployed. We know of no estimates of the effects of welfare programs, as such, on the unemployment rate. Most of the discussion about the unemployment rate effect of these programs has focused instead on the fact that some of them (Aid to Families with Dependent Children and Food Stamps) have recently instituted mandatory work registration of some kind (at least for some participants).

Mandatory work registration might change the measured unemployment rate because it forces people who were not previously looking for work to begin looking (in which case the change in the measured unemployment rate is correct, although for the purposes of the present inquiry we would still want to eliminate the effect to maintain comparability over time). Alternatively, it might induce people who were not really interested in working to report themselves to the Current Population Survey (CPS) as looking for work because they were afraid that correct reporting would somehow jeopardize their eligibility for welfare payments. The latter idea seems as the root of most of the discussion of the subject; that is, the idea that registration requirements have not produced changes in economic behavior (labor force participation), only a measurement error in the official unemployment series. Obviously, evaluation of this probability requires information on how mandatory work registration influences the way people respond to the CPS survey, but no studies have produced direct information on survey response.

In its 1976 *Annual Report*, the Council of Economic Advisers reported that when welfare mothers were required to register for work, their specific unemployment rate increased by 5.8 points (from 5.7 percent to 11.5 percent);²¹ Cagan translated this into a 0.2 increase in the overall unemployment rate.

The Council's estimate, however, was obtained from administrative records of the Aid to Families with Dependent Children (AFDC) program and refers to the number of program recipients reclassified from "out of the labor force" to "unem-

ployed" status by welfare administrators after passage of the work registration requirement. The legislation itself required welfare administrators to determine which welfare recipients were capable of holding jobs; one would expect this more careful examination, alone, to result in transfers out of the "not in the labor force" status, even in the absence of work registration (simply because it focused attention on making a more precise definition of potential employability and labor market status). In some cases, for example, mothers might have already regarded themselves as looking for work (hence, unemployed), so that the change in AFDC records reflects more accuracy in recording labor market status in those records, rather than a change in the welfare recipient's own perception of her status, or any change in the measured unemployment rate. Moreover, having decided that a welfare recipient was capable of working, and hence should be forced to register for work, the only consistent labor force classification for the administrator to make is "unemployed."

The question for the measured unemployment rate, however, is not the welfare administrator's response to mandatory work registration, but the effect of the registration on the welfare recipient's own perception of her labor market status, and its effect on her response to the CPS query. It is reasonable to presume that work registration will produce *some* change in survey response, but it is extremely doubtful that *all* persons reclassified by administrators will reclassify themselves when they are included in the Current Population Survey. (Indeed, the 11.5-percent unemployment rate reported in the AFDC administrative records is really a count of the number of employable, but not currently working, mothers receiving AFDC.) For this reason, we believe that Cagan's 0.2-percentage point estimate for the effect of AFDC work requirements on the unemployment rate is too high.

In a widely circulated study, Kenneth W. Clarkson and Roger E. Meiners reached a far higher figure (2.4 percentage points) for the effect of all welfare program work registration requirements.²² The authors essentially jumped to this conclusion from observing the size of the change in the unemployment rate in the past several years (years in which work registration requirements were instituted), buttressing the argument with counts of persons in the affected programs. Their data have little, if anything, to say about the measured unemployment rate, and amount to little more than unsubstantiated speculation, which (as shown in analyses by the Bureau of Labor

Statistics and the Congressional Budget Office) is far from convincing. Cagan cites the study but does not use its results, a judgment which we follow in the present article.

Government training programs. A training program can have several impacts on the unemployment rate. It is well known that more highly skilled workers have lower unemployment rates, so a training program which succeeds in raising the skill level above what it otherwise would have been might be expected to lower unemployment rates of participants throughout their lifetimes, thereby producing a permanent reduction in the aggregate unemployment rate. The long-run effect of existing and past government training programs has been the subject of some debate, and we know of no studies which indicate whether they have reduced the long-run unemployment rate.

There is also a short-run impact. Some persons who are in training programs (and, therefore, classified as out of the labor force) would otherwise have been in the labor force and those who did not find employment would raise the unemployment rate. Attempts to examine the short-run impact have been done by Malcolm Cohen, Sylvia S. Small, and Ralph E. Smith.²³ All take the *previous labor market status* of program participants to define their *probable status* were they not in the program (though Smith, as noted later, modified this approach). Cohen and Small come up with a decrease in the unemployment rate of about 0.3 percentage point.

However, using this approach to estimate the effect on the overall unemployment rate assumes that when a worker leaves his job to enter a training program, *the number of jobs in the economy falls*. We assume, instead, that the total number of jobs in the economy is determined by conventional macroeconomic forces and is independent of whether a group of individuals enters into training programs (or, put another way, that when a worker enters into a training program his job is taken by someone else who would otherwise have been unemployed). Under this line of reasoning, the number of unemployed is reduced by the *entire number* of participants who were previously in the labor force—not just those who were previously unemployed—with appropriate adjustments (if any) for probable changes in labor force participation rates. This recalculation would *raise* the estimated impact on the unemployment rate substantially. Thus, Smith's downward adjustment to Small's estimate—for probable length of unemployment—is inappropriate, and adjusts the estimate in the wrong direction.

Changes in measurement and response. Changes in the Current Population Survey in 1967 and 1970 have been evaluated by the Bureau of Labor Statistics and the Bureau of the Census. Paul O. Flaim judged the effects of the two changes to be offsetting, resulting in no net change in the overall unemployment rate.

Cagan quoted Alfred Tella²⁴ as arguing that survey response error has changed over time, and that this factor has lowered the unemployment rate by 0.1 points. Thus, the net effect of measurement and response changes is very small, with a possible small downward error being the best estimate.

Is there a current equivalent?

We have carried out a critical review of available research on factors which affect the comparability of recent unemployment rates with those of earlier periods. It is tempting to add up the quantitative results discussed and to treat the sum as an estimate of the change in the full-employment unemployment rate over the past two decades. Though we believe the results of the various studies cited are enlightening, it is not valid to combine these results to obtain an unemployment rate "comparable" to some earlier rate. Present research simply does not permit a very precise estimate of the total influence of all the factors discussed in this article. There are two compelling reasons for an agnostic position on this question: (1) A lack of confidence in the precision of estimated effects for the individual factors, and (2) major problems with the validity of *summing* the separate estimates of individual factors (primarily, unmeasured interaction effects among the various separate estimates).

Precision of estimates. For most of the factors which have been studied, we have reservations about the accuracy, precision, or validity of existing estimates. These reservations are summarized in Exhibit A, which lists two sources of imprecision: (1) Known errors in available estimates which tend to overstate the estimated effect of the particular factor studied; and (2) important aspects of some factors on the list have not been investigated in a setting which permits using research results to estimate comparable unemployment rates.

Exhibit A. Summary of biases in estimates of effects of noncyclical factors on the unemployment rate

Source	Direction of and reason for probable bias or error in estimates
1. Labor force composition	Uncertain; interaction term from fixed weight unemployment rate calculation cannot be partitioned accurately, and other methodologies do not yield estimates precisely comparable with the measured unemployment rate
2. UI benefits	Uncertain; probable upward bias for factors listed in table 2, but other UI influences on unemployment have not been studied
3. Minimum wage	Estimated effect too large, for reasons specified in text
4. Other factors	Uncertain; incomplete data
Mutual-aid/family	Estimates effect incomplete, and therefore possibly too low
Welfare programs	Estimated effect too small, for reasons discussed in text
Government training programs	Estimated effect too small, for reasons discussed in text
Measurement	None, so far as known

Because we have no estimates of the size of the errors, nor of the extent to which they may or may not offset each other—we do not know the sign of the aggregate error or bias. We feel that adding up the existing factor estimates from the separate parts of this article would produce an aggregate figure in whose precision we would have little confidence.

Imprecision of summed totals. We have argued throughout this article that a number of factors that have been identified as affecting unemployment rate comparability interact with each other. Thus, for example, if the minimum wage affects the unemployment rate partially through the effects it has on the labor force for impacted groups, then it is proper to include those effects if the objective is to estimate only the minimum wage effect; it would be quite improper, however, to *add* such an estimate to an estimate of labor force composition effects obtained independently, because simple summation would in this case count part of the effect of the minimum wage rate twice.

We feel that labor market interactions are pervasive among the factors discussed in this article, so that *simple summation* of the separately estimated effects would lead to serious error. However, we do not rule out some form of combination, if the necessary information were available on the size of interaction effects. It is not at the present time. □

FOOTNOTES

¹ See Annual Report of the Council of Economic Advisers, 1976, and Annual Report, 1977; Philip Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," *Contemporary Economic Problems*, 1977 (Washington, American Enterprise Institute for Public Policy Research, 1977), pp. 15-52; and Paul O. Flaim, "The effect of

demographic changes on the Nation's unemployment rate," *Monthly Labor Review*, March 1979, pp. 13-23.

² Michael Wachter, "The Demographic Impact on Unemployment: Past Experience and the Outlook for the Future," *Demographic Trends and Full Employment*, Special Report 12 (Washington, National

MONTHLY LABOR REVIEW March 1979 • A Current Equivalent to Past Unemployment Rates?

Commission for Manpower Policy, 1976), pp. 27-99.

³ In its original 1970 form, UP was not a fixed-weight measure, as it incorporated current hours and earnings. In a 1977 article, George L. Perry introduced a "potential" unemployment rate, which differs from that of his 1970 article (though he also indicates using the 1970 version in some of his calculations). See George L. Perry, "Changing Labor Markets and Inflation," *Brookings Papers on Economic Activity* 3: 1970, pp. 411-41; and George L. Perry, "Potential Output and Productivity," *Brookings Papers on Economic Activity* 1: 1977 (Washington, The Brookings Institution), pp. 11-47.

⁴ See, for example, the Brookings Panel discussion accompanying Wachter's article, "The Changing Cyclical Responsiveness of Wage Inflation," *Brookings Papers on Economic Activity* 1: 1976 (Washington, The Brookings Institution, 1976), pp. 115-59.

⁵ Wachter, "Changing Cyclical Responsiveness," pp. 126-27.

⁶ Milton Friedman, "The Role of Monetary Policy," *The American Economic Review*, March 1968, pp. 1-17; Edmund S. Phelps, "Money Wage Dynamics and Labor Market Equilibrium," in Edmund S. Phelps, ed., *Microeconomic Foundations of Employment and Inflation Theory* (New York, W. W. Norton & Co., Inc., 1970), pp. 124-66; and Cagan, "The Reduction of Inflation."

⁷ Daniel S. Hamermesh, *Jobless Pay and the Economy* (Baltimore, The Johns Hopkins University Press, 1977), p. 49.

⁸ Martin Feldstein, *Lowering the Permanent Rate of Unemployment* (Washington, Joint Economic Committee of the Congress, September 1973).

⁹ Some studies, as well as some press reports, have failed to distinguish between the two questions and have taken Feldstein's 0.75 percentage point as an estimate of the impact that changes in unemployment insurance have had on the unemployment rate by way of increasing duration.

¹⁰ Cagan, "Reduction of Inflation," p. 34.

¹¹ Jacob Mincer, "Unemployment Effects of Minimum Wages," *Journal of Political Economy*, August 1976 (part 2), pp. 87-104; Hyman B. Kaitz, "Experience of the Past: The National Minimum," in *Youth Unemployment and Minimum Wages*, Bulletin 1657 (Bureau of Labor Statistics, 1970), pp. 30-54; and James F. Ragan, Jr., "Minimum Wage Legislation and the Youth Labor Market," *Review of Economics and Statistics*, May 1977, pp. 129-36.

¹² Thomas W. Gavett, "Introduction" to *Youth Unemployment and Minimum Wages*, Bulletin 1657 (Bureau of Labor Statistics, 1970), pp. 1-29.

¹³ Edward Gramlich, "Impact of Minimum Wages on other Wages, Employment, and Family Incomes," *Brookings Papers on Economic Activity* 2: 1976 (Washington, The Brookings Institution, 1976), pp.

409-51.

¹⁴ Marvin Kosters and Finis Welch, "The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment," *American Economic Review*, June 1972, pp. 323-32.

¹⁵ Kosters and Welch, op. cit., p. 30.

¹⁶ J. Wilson Mixon, *The Minimum Wage and the Job Package* (Bureau of Labor Statistics Working Paper 32, January 1975).

¹⁷ Robert E. Hall, "Turnover in the Labor Force," *Brookings Papers on Economic Activity* 3: 1972 (Washington, The Brookings Institution, 1972), pp. 709-56.

¹⁸ John M. Barron and Wesley Mellow, "Search Effort in the Labor Market," forthcoming in the *Journal of Human Resources*.

¹⁹ The search intensity regression contains as an independent variable, the dollar value of weekly income received during the prior month net of any wage and unemployment insurance benefits received by the individual. A major component of this variable is the weekly earnings of other family members. The estimated coefficient on the income variable is -.004 (Barron and Mellow, table 1). Multiplying this estimate by average weekly earnings in 1976 of \$175 yields a reduction of 0.7 hours per week in time spent looking for work. Because mean search time for the sample is 7.1 hours, this translates into approximately a 10-percent reduction in search time.

²⁰ The 1976 unemployment rate was 7.7 percent and in the jobseeking activities supplement, 55 percent of the unemployed reported other family members were working. The implied reduction in the 1976 rate is thus: [(the reduction in the unemployment rate - 10) x (the percent of unemployed with another family member working - 55) x (the 1976 unemployment rate - 7.7)] = .42.

²¹ Council of Economic Advisors, *Annual Report*, 1976, p. 68.

²² Kenneth W. Clarkson and Roger E. Meiners, *Inflated Unemployment Statistics: The Effect of Welfare Work Registration Requirements*, (Miami, University of Miami School of Law, Law and Economics Center, March 1977).

²³ Malcolm S. Cohen, "The Direct Effects of Federal Manpower Programs in Reducing Unemployment," *The Journal of Human Resources*, Fall 1969, pp. 491-507; Sylvia S. Small, "Statistical Effect of Work-Training Programs on the Unemployment Rate," *Monthly Labor Review*, September 1972, pp. 7-13; and Ralph E. Smith, "Manpower programs and unemployment statistics," *Monthly Labor Review*, April 1973, pp. 63-65.

²⁴ Alfred Tella, "Analyzing Joblessness," *The New York Times*, Oct. 27, 1976, Op-Ed page; and Cyclical Behavior of Bias-Adjusted Unemployment, Methods for Manpower Analysis 11 (W.E. Upjohn Institute for Employment Research, April 1976).